WORLD POLITICS

A Quarterly Journal of International Relations

Volume 47, Number 2 January 1995

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

UNDER THE EDITORIAL SPONSORSHIP OF
CENTER OF INTERNATIONAL STUDIES
PRINCETON UNIVERSITY
PUBLISHED BY THE JOHNS HOPKINS UNIVERSITY PRESS

EDITORIAL BOARD
John Waterbury, *Chairman*
Bruce Bueno de Mesquita, Benjamin J. Cohen, Matthew Evangelista, Stephan Haggard, Peter A. Hall, James R. Hines Jr., Miles Kahler, Friedrich Kratochwil, Jack Levy, James D. Morrow, Kenneth A. Oye, Elizabeth Perry, Jonas Pontusson, Vivienne Shue, Jack Snyder, Robert C. Tucker

Editors: Nancy Bermeo, Henry S. Bienen, Richard D. Challener, George W. Downs, Michael W. Doyle, Richard Falk, Aaron L. Friedberg (*Review Articles*), Robert G. Gilpin, Joanne Gowa, Jeffrey Herbst, Atul Kohli, John Waterbury

Associate Editors: Kent E. Calder Harold A. Feiveson, Keisuke Iida, Marc A. Levy, John B. Londregan, Pei Minxin, Gilbert Rozman, Anna Seleny, Paul E. Sigmund, Robert L.Tignor, Lynn T. White III, William C. Wohlforth
Executive Editor: Ilene P. Cohen; *Assistant Editor:* Susan Bindig

The editors invite submission of articles (up to 10,000 words, including footnotes) bearing upon problems in international relations and comparative politics. Manuscripts and footnotes should be double-spaced throughout and submitted in triplicate, together with an abstract. Footnotes should be placed at the end of the manuscript. Address: WORLD POLITICS, Bendheim Hall, Princeton University, Princeton, NJ 08544.

Authors may expect to be notified of the editors' decision within four months. Procedures for reviewing manuscripts are based on the anonymity of the author and the confidentiality of readers' and editors' reports. Editorial policy does not provide for transmitting readers' evaluations to authors of rejected manuscripts. Exceptions may be made if, in the opinion of the editors, such comments contain substantive suggestions. WORLD POLITICS does not accept manuscripts that have already been published, are scheduled for publication elsewhere, or have been simultaneously submitted to another journal. Statements of fact and opinion appearing in the journal are made on the responsibility of the authors alone and do not imply the endorsement of the editors or publisher. The journal does not publish communications to the editor or rejoinders to specific articles. Scholars who believe they have been challenged are encouraged to submit an article that will advance the scholarly debate.

Reprint permission: Permissions Department, The Johns Hopkins University Press, 2715 N. Charles Street, Baltimore, MD 21218-4319.

Subscriptions: WORLD POLITICS, The Johns Hopkins University Press, Journals Publishing Division, 2715 N. Charles Street, Baltimore, MD 21218-4319. Phone: (410) 516-6987; FAX: (410) 516-6968; toll-free (800) 548-1784. Individuals: $24 per year; institutions: $51 per year. Single copies: individuals, $8.00; institutions, $15.00. For postage and handling in Canada and Mexico, add $4.00 per year; outside of North America, $9.40.

Back Issues: WORLD POLITICS is available in microfilm or xerographic copies from University Microfilms, Ann Arbor, MI 48106. Two years after publication, complete volumes are available in microfiche form from KTO Microform, Route 100, Millwood, NY 10546. Individual issues in the current and two preceding volumes may be ordered from The Johns Hopkins University Press, Journals Publishing Division, 2715 N. Charles Street, Baltimore, MD 21218-4319.

Advertising: Journals Advertising Coordinator, The Johns Hopkins University Press, Journals Publishing Division, 2715 N. Charles Street, Baltimore, MD 21218-4319.

WORLD POLITICS is indexed by *ABC POL SCI, Book Review Index, Combined Retrospective Index Sets (CRIS), Combined Retrospective Index to Book Reviews in Scholarly Journals, 1886–1974 (RSJ), PAIS Bulletin,* and *Social Science Index;* it is abstracted and indexed in *United States Political Science Documents, International Bibliograpy of Periodical Literature (IBZ), International Bibliography of Book Reviews (IBR),* and *Current Military and Political Literature.* Abstracts of articles also appear in *Book Review Digest, Historical Abstracts, International Development Abstracts, International Political Science Abstracts, Political Science Abstracts,* and *Social Sciences Abstracts.*

Copyright © 1995 by The Johns Hopkins University Press

WORLD POLITICS (ISSN 0043-8871). Published quarterly by The Johns Hopkins University Press. Vol. 47, No. 2, January 1995. Second class postage paid at Balitmore, MD, and additional mailing offices. POSTMASTER: Send address changes to WORLD POLITICS, The Johns Hopkins University Press, Journals Publishing Division, 2715 N. Charles Street, Baltimore, MD 21218-4319. Printed in the United States of America by Princeton Academic Press, Inc.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

WORLD POLITICS

Vol. 47 • January 1995 • No. 2

CONTENTS

Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia — *Mitchell Bernard* and *John Ravenhill* — 171

State Power, Institutional Change, and the Politics of Privatization in Russia — *Michael McFaul* — 210

Social Rights Advocacy and State Building: T. H. Marshall in the Hands of Social Reformers — *Jytte Klausen* — 244

Review Articles

Processes of Dyadic Choice for War and Peace — *Bruce Russett* — 268

Much Ado about Ideas: The Cognitive Factor in Economic Policy — *John Kurt Jacobsen* — 283

The Contributors — ii

Abstracts — iii

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

THE CONTRIBUTORS

MITCHELL BERNARD is Lecturer in the Department of Political Science at York University (Canada). His research interests include structural change in the Japanese political economy, changing forms and ideologies of regionalization in East Asia, and the relationship between changes in technology, production, and political power.

JOHN RAVENHILL is Senior Fellow in the Department of International Relations, Research School of Pacific and Asian Studies, Australian National University. His most recent books are *Pacific Cooperation: Building Economic and Security Regimes in the Asia-Pacific Region* (1994) and *The Political Economy of East Asia* (1995).

MICHAEL MCFAUL is Assistant Professor of Political Science and a Research Associate at the Center for International Security and Arms Control, both at Stanford University. He is the author of *Post-Communist Politics: Democratic Prospects in Russia and Eastern Europe* (1993), coauthor (with Sergei Markov) of *The Troubled Birth of Russian Democracy: Political Parties, Programs, and Profiles* (1993), and coeditor (with Tova Perlmutter) of *Privatization, Conversion, and Enterprise Reform in Russia* (1994).

JYTTE KLAUSEN is Assistant Professor in the Department of Politics, Brandeis University. She is a visiting scholar at the Minda de Gunzburg Center for European Studies at Harvard University and a visiting fellow at the Centre for Social Policy Research, University of Bremen, Germany. She is presently working on a book-length manuscript with the working title, "When States Organize Labor: European Labor Politics under Bretton Woods and the European Monetary System"; and she is coeditor (with Louise A. Tilly) of *Processes of European Integration, 1880–1995: States, Markets and Citizenship* (forthcoming).

BRUCE RUSSETT is Dean Acheson Professor and Chair of the Political Science Department at Yale University. His most recent book is *Grasping the Democratic Peace* (1993), and he is currently codirector of the secretariat for the Independent Working Group on the Future of the United Nations.

JOHN KURT JACOBSEN is a Research Associate in the Program on International Politics, Economics and Security at the University of Chicago. He is the author of *Chasing Progress in the Irish Republic* (1994) and is currently working on a study of decision making on technological issues in Western democracies.

Authorization to photocopy items for internal or personal use, or the internal or personal use of specific clients, is granted by The Johns Hopkins University Press for libraries and other users registered with the Copyright Clearance Center (CCC) Transactional Reporting Service, provided that the fee of $3.25 per article is paid directly to CCC, 222 Rosewood Drive, Danvers, MA 01923. 0043-88 71/94 $03.25

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ABSTRACTS

Beyond Product Cycles and Flying Geese

Regionalization, Hierarchy, and the Industrialization of East Asia

By MITCHELL BERNARD AND JOHN RAVENHILL

Product cycle theory as expressed in the analogy of flying geese has become a widely accepted way of conceptualizing industrial diffusion across East Asia. As the product cycle is repeated for increasingly sophisticated products, so, it is argued, the development trajectory of Japan will be replicated in a succession of sectors and countries. This approach fails, however, to capture the complexities of the contemporary regionalization of industrial production. East Asian industrial production should not be seen as a tightly coupled process in which the rise of national economies parallels successive product cycles. Rather than Japan's development trajectory being replicated in country after country, industrial diffusion has been characterized by shifting hierarchical networks of production and partial diffusion into diverse politicoeconomic contexts at differing historical junctures. It has also resulted in a triangulation of the region's trade patterns that has generated large imbalances in trade both within the region and between the region and the United States.

State Power, Institutional Change, and the Politics of Privatization in Russia

By MICHAEL MCFAUL

This article reviews recent events in Russia and demonstrates that future progress in developing private property rights will require not only sound economic policies but also more robust state institutions capable of carrying out economic transformation. In January 1992 Russia's first postcommunist government launched a comprehensive economic program to transform the Soviet command system into a market economy. Privatization constituted one of the key components of this program. Two years later, however, privatization in Russia had failed to create real private property rights. By the summer of 1993 insiders had acquired majority shares in two-thirds of Russia's privatized and privatizing firms, state subsidies accounted for 22 percent of Russia's GNP, little if any restructuring had taken place within enterprises, and few market institutions had been created. Progress toward creating private property rights in Russia was impeded by the particular constellation of political institutions in place after the collapse of the Soviet Union in 1991. The set of political institutions comprising the first postcommunist Russian state was not capable of either dismantling Soviet institutions governing property rights or creating or supporting new market-based economic institutions regarding private property.

Social Rights Advocacy and State Building

T. H. Marshall in the Hands of Social Reformers

By JYTTE KLAUSEN

This article argues that it is a fallacy to regard "social citizenship" as granting social rights equivalent to civil rights and suffrage. The argument is based partly upon a textual analysis showing that in formulating his influential "trinity" of citizenship, T. H. Marshall obfuscated differences between the distributional logic of redistributive policy and political and civil rights. The second part of the argument is based upon an empirical discussion of how social citizenship arguments have been applied to create comprehensive social reform.

The Scandinavian welfare states play a central role in the discussion as examples of the inclusionary benefits of social citizenship. Three instances of welfare state expansion are discussed: the passage of legislation establishing flat-rate retirement benefits, the institution of supplementary earnings-related retirement benefits, and feminist mobilization in the 1980s for a "woman-friendly" welfare state. It is shown that claims to social citizenship are used by outgroups to demand inclusion in electoral coalitions aiming at welfare state expansion.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The article concludes that social citizenship is inextricably linked to redistributive political conflict between in-groups and out-groups and depends upon state capacity to raise revenues and to police entitlement. A key difference between social rights and political and civil rights is that consumption of the former hinges on both the consent of the community and the willingness of others to pay for such consumption, while consumption of the latter does not impose direct costs upon others.

Processes of Dyadic Choice for War and Peace

By BRUCE RUSSETT

This essay reviews three recent books on foreign policy decision making. Collectively, they sharply modify conventional realist analysis by emphasizing the possibility of choice, the necessity of analyzing relationships at the level of a dyad of states rather than at the level of either individual states or the entire international system, and the cognitive processes by which choices are made. But their substantial challenge to realism falls short of the next step necessary, namely, more fully developing a theory of how domestic political processes affect the choice of whether to use military force.

Much Ado about Ideas

THE COGNITIVE FACTOR IN ECONOMIC POLICY

By JOHN KURT JACOBSEN

This article examines recent works that investigate how ideas acquire influence over economic policy choice. The revival of interest in the "material power of ideas" stems from discontent with the inability of rational interest-based models to explain particular policy outcomes, except by resorting to auxiliary assumptions. The works under review primarily apply "ideas approaches" as supplementary analytical devices to clarify the dynamics of policy choices. These studies succeed in illuminating the interpenetration of interests and ideas in order to plumb the problematic variability of interest formation and the degree of public influence over economic policy parameters. The bolder thesis that ideas have a force of their own (independent of all interests) is, however, misconceived and unproved.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

BEYOND PRODUCT CYCLES AND FLYING GEESE
Regionalization, Hierarchy, and the Industrialization of East Asia

By MITCHELL BERNARD and JOHN RAVENHILL*

THE product cycle explanation of East Asia's industrialization was popularized by Bruce Cumings. In his often cited 1984 article, he made the convincing argument that economic development in East Asia cannot be understood outside the context of "the fundamental unity and integrity of the regional effort" that began with Japanese colonialism.[1] Cumings applied the analogy of "flying geese" to the situation in East Asia: countries are said to follow one another in a developmental trajectory in which the latecomers replicate the developmental experience of the countries ahead of them in the formation. The economic rise of states is seen as a process that is tightly linked to the emergence, maturation, and decline of particular industrial sectors.

While we agree with Cumings that a regional perspective is essential for understanding the pattern of industrialization in contemporary East Asia, we find that the "flying geese" variant of the product cycle theory fails to capture the complexity of the regional political economy, which is increasingly dominated by the regionalization of industrial production.

The argument advanced here is that three forces are driving the process of economic integration in East Asia: the globalization of production networks;[2] increased intergovernmental disputes over bilateral economic relationships; and the rapid pace of technological change. The tension between the territorially based *interstate* system and the

* We are grateful to Hal Hill for helpful comments on earlier drafts of this article and to Robin Ward for research assistance.

[1] Bruce Cumings, "The Origins and Development of the Northeast Asian Political Economy: Industrial Sector, Product Cycles and Political Consequences," *International Organization* 38 (Winter 1984), 3.

[2] Globalized production networks are arrangements that link a multitude of producing units in different countries so as to provide all components, materials, and management for the assembly of a particular product.

World Politics 47 (January 1995), 171–209

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

globalized networks of production and exchange has generated a dynamic interplay of "politics" and "economics" that is exercising a profound influence on the structure of the East Asian political economy as tensions rise over imbalances in interstate trade. In addition, the complex and rapid nature of industrial change has fragmented product markets, decentralized the locus of manufacturing activity, and shifted the organizational setting in which production takes place from the firm to the network.

Rather than replicating Japan's development experience in country after country throughout the region as the flying geese analogy suggests, the diffusion of manufacturing in East Asia has increasingly been characterized by shifting hierarchical networks of production linked both backward to Japanese innovation and forward to American markets for the export of finished goods. Such networks offer access for some firms and activities and diminish the opportunities for others. Spatially and organizationally the networks are neither static nor closed. Fears that such networks may be the building block for the creation of a new Co-Prosperity Sphere in East Asia are exaggerated. Regional state elites are increasingly concerned about the extent of technological dependence on Japanese corporations and are eager to diversify their sources of technology. Such concerns, coupled with continued dependence on American (and to a lesser extent Western European) markets for manufactured exports and growing friction over access to the Japanese market, militate against the formation of a yen bloc.

We begin with a brief outline of product cycle theory and a discussion of why we believe it does not adequately capture key features of the contemporary regional political economy in East Asia.

Flying Geese and Product Cycles

The analogy of flying geese was first proposed by the Japanese economist Akamatsu Kaname in the late 1930s. Curiously, although many writers have made use of the analogy, few appear to have looked at its original formulation.[3] Akamatsu set out to explain not only the development trajectories of less developed countries, but also why the world economy is characterized by alternating periods of free trade and pro-

[3] Akamatsu Kaname, "Shinkoku Kogyokoku no Sangyo Hatten," *Ueda Teijiro Hakushi Kinen Ronbunshu* 4 (July 1937). An English-language summary of his argument appears in idem, "A Theory of Unbalanced Growth in the World Economy," *Weltwirtschaftliches Archiv* 86, no. 1 (1961).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tectionism. Based on his study of the textile industry in Japan, Akamatsu suggested that the diffusion of new products and technologies begins with their import into less industrialized countries. Over time, techniques and capital goods are imported, and "homogeneous industries" are established. The less industrialized countries acquire their own capital goods industries. In the fourth stage of the cycle, local capital goods industries develop export capabilities, and interstate trade conflicts become more common. The process, he argues, follows a "wild-geese-flying pattern of successive appearance of import, domestic production, and export." "Wild geese," he notes, "are said to come to Japan in autumn from Siberia and again back to north before Spring, flying in inverse V shapes, each of which overlaps to some extent."[4] Akamatsu summarized his model in the graph shown in Figure 1.

Whereas Akamatsu was concerned with leading sectors, which he saw as determining the development of national economies, Raymond Vernon in his product cycle theory focused on the behavior of individual firms.[5] He examined how the life cycle of individual products affects the competitiveness of firms and thus the locus of manufacturing production. Based on the manufacturing experience of U.S.-based transnational corporations, the theory suggests that product innovation occurs in high-income countries. Initially, demand from other countries is met through exports; it is a period when the innovating firm enjoys oligopolistic advantages. As the product and the technology employed in its manufacture mature, so costs of production, particularly labor costs, take on greater importance. Exports are increasingly displaced either by overseas production by the innovating firm or by local production. In the final stage of the cycle domestic demand is met by imports from countries that have lower labor costs. Ultimately, the firm that originated the product often abandons its production as its oligopolistic advantages disappear.

Liberal economists (primarily Japanese, but not exclusively so) have attempted to synthesize aspects of Akamatsu's and Vernon's arguments into a model of East Asian regional development.[6] They have incorporated Akamatsu's discussion of industrial diffusion across nations with Vernon's model of direct foreign investment and foreign sourcing of products by innovating firms. The two have in turn been linked to neoclassical notions of comparative advantage to describe a "ratio-

[4] Akamatsu (fn. 3, 1961), 205–6.

[5] Raymond Vernon, *Sovereignty at Bay* (New York: Basic Books, 1971).

[6] See, for example, Ippei Yamazawa, *International Trade and Economic Development: A Japanese Model* (Honolulu: University of Hawaii Press, 1990), chap. 2.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

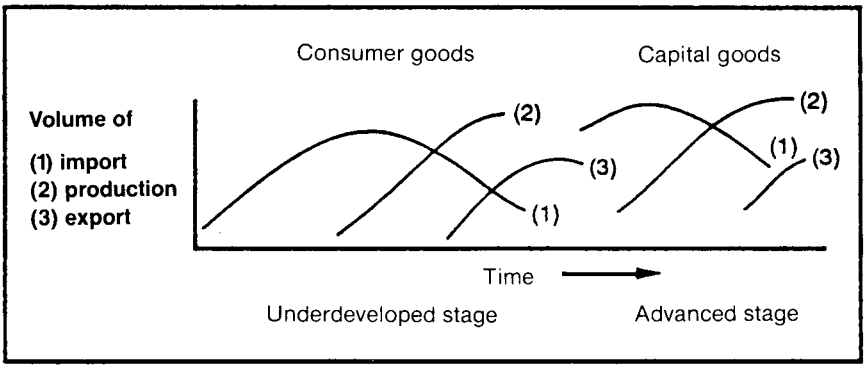


FIGURE 1
AKAMATSU'S FLYING GEESE MODEL

nal"[7] pattern of industrial diffusion from Japan to the East Asian newly industrializing countries [NICs], to ASEAN, and most recently to China. As the product cycle is repeated for increasingly sophisticated products, so, it is argued, the development experience of Japan will be replicated in a succession of sectors and countries. Kojima Kiyoshi has dubbed this amalgam of Akamatsu's and Vernon's ideas, the "catching-up product cycle theory."[8] Common reference to the "flying geese" analogy in the contemporary literature, as for instance in the Cumings article, is to this amalgam rather than to Akamatsu's original formulation. We will follow this practice in this article and use "flying geese" and "product cycle theory" interchangeably.

Product cycle explanations of East Asia's success are found not only in the writings of Japanese economists but also in the work of Western economists and political scientists. The American economist Peter Petri has employed the flying geese analogy in suggesting that East Asian developmental trajectories have followed the Japanese path more closely than would have been expected from considering neoclassical (Heckscher-Ohlin) arguments about relative factor endowments. In

[7] Ippei Yamazawa, "Gearing the Japanese Economy to International Harmony," *Developing Economics* 28 (March 1990), 9. There is often a move from description to prescription in the usage of the flying geese metaphor by Japanese economists: the core assumption is that "the development model adopted by the Japanese may be regarded as a suitable development strategy for newly industrializing economies today" (Yamazawa, 27). Kojima Kiyoshi, a student of Akamatsu's, argues that the special features of what he terms "Japanese-style DFI" are what enables developing countries to imitate Japan's development pattern. See, for instance, Kojima, "Japanese-Style Direct Foreign Investment," *Japanese Economic Studies* 14 (Spring 1986).

[8] Kojima, "Reorganization of North-South Trade: Japan's Foreign Economic Policy for the 1970s," *Hitotsubashi Journal of Economics* 13 (February 1973).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

part, he argues, this was because the NICs (Korea in particular) consciously set out to model their industrialization on the Japanese experience. But it has also been facilitated by the increasingly short life cycle of many industrial products, which has quickly brought considerations of labor costs to bear.[9] The American political scientists Steve Chan and Cal Clark adopt a similar approach in asserting that "perhaps the most important explanation" for dependency reversal in East Asia "lies in what Raymond Vernon terms the 'international product cycle.'"[10]

We believe the uncritical application of the product cycle literature to the contemporary East Asian experience is misleading for several reasons. First, the theory makes assumptions about the maturation of products and technology as industries progress through the product cycle, but these do not hold in many sectors in which production has been regionalized in East Asia. Second, both Akamatsu and Vernon argued that production for export in the countries to which manufacturing migrated would build on an experience of import-substituting manufacturing of these products; again such assumptions have decreasing relevance to the East Asian experience. Finally, the theory predicts that in the last stage of the product cycle, firms in the originating country will exit from the market, leaving domestic demand to be met from the exports of the countries to which production has migrated. As we will argue, this stage of "reverse exporting" has largely failed to occur. That it has not done so is a primary cause of the increasing interstate trade tensions within the region.

Consider first the assumptions regarding technological maturation. Product cycle theory suggests that manufacturing will migrate to less industrialized countries once the products and the technology for producing them within the sector have matured. As Cumings asserted in his discussion of industrialization in Korea and Taiwan, firms in these countries "use 'steady-state' or obsolescent technologies—as Lin puts it, technology 'is stable in the product-cycle sense.'"[11] Students of technology transfer have long questioned the accuracy of this hypothe-

[9] Petri, "The East Asian Trading Bloc: An Analytical History," in Jeffrey Frankel and Miles Kahler, eds., *Regionalism and Rivalry: Japan and the U.S. in Pacific Asia* (Chicago: University of Chicago Press, 1993). See also Petri, "Korea's Export Niche: Origins and Prospects," *World Development* 16 (January 1988). Another American economist, Paul W. Kuznets, comments that "Akamatsu's 'Wild-Geese Flying' pattern also fits much of Korea's industrial development." Kuznets, "Government and Economic Strategy in Contemporary South Korea," *Pacific Affairs* 58 (Spring 1985).

[10] Chan and Clark, "Changing Perspectives on the Evolving Pacific Basin: International Structure and Domestic Processes," in Clark and Chan, eds., *The Evolving Pacific Basin in the Global Political Economy: Domestic and International Linkages* (Boulder, Colo.: Lynne Rienner, 1992), 11.

[11] Cumings (fn. 1), 35, quoting Ching-yuan Lin, *Industrialization in Taiwan, 1946–72: Trade and Import-Substituting Policies for Developing Countries* (New York: Praeger, 1973), 134.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

sis. William Walker, for instance, in surveying several machinery industries, discovered little evidence that product and process standardization had occurred; rather, he found that technical change had been continuous and rapid. He concluded therefore that product stability is "very exceptional," as the survival of most firms depends upon product innovation.[12] Merton Peck and Robert Wilson reached a similar conclusion in their study of technology in Japanese manufacturing. They observed, contrary to expectation, that when supposedly technologically mature product groups such as automobiles and TVs began to be produced in Japan in the 1960s, product and process innovation continued at a rapid rate.[13]

Studies of technological change suggest that while technology and production processes may be stable for a particular generation of products, radical change may occur within a relatively brief period of time as one generation of products is succeeded by the next. The microelectronics revolution has greatly accelerated the rate of technological development. Microelectronic technology constitutes a "basic innovation" applicable in almost all aspects of product and process design.[14] Its application offers the opportunity to employ flexible production techniques that, in turn, decrease the significance of economies of scale. As a consequence, short production runs of nonstandardized products for specialist markets have become possible, enabling smaller companies to gain a foothold in production chains.

While the microelectronics revolution has provided opportunities for some forms of entry into production for global markets, it has foreclosed or complicated others. Increased technological complexity has produced greater barriers to entry (in the form of both higher start-up costs and knowledge requirements), steeper learning curves, increased specialization, and a growing reluctance on the part of companies (and

[12] William B. Walker, *Industrial Innovation and International Trading Performance* (Greenwich, Conn.: JAI Press, 1979), 25.

[13] Peck and Wilson, "Innovation, Imitation and Comparative Advantage: The Performance of Japanese Color Television Set Producers in the U.S. Market," in Herbert Giersch, ed., *Emerging Technologies: Consequences for Economic Growth, Structural Change, and Employment* (Tübingen: J. C. B. Mohr [Paul Siebeck], 1982).

[14] Bengt-Ake Lundvall, "User-Producer Relationships, National Systems of Innovation and Internationalisation," in Lundvall, ed., *National Systems of Innovation: Towards a Theory of Innovation and Interactive Learning* (London: Frances Pinter, 1992). Technological change such as the advent of microelectronics makes possible entirely new product attributes, levels of performance and possibilities for their use in conjunction with hitherto unrelated products as part of linked systems. See William J. Abernathy, Ken Clark, and Alan Kantrow, *Industrial Renaissance: Producing a Competitive Future for America* (New York: Basic Books, 1983), chap. 2.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

governments) to transfer technology.[15] These trends make the establishment of backward linkages and indigenous industries far more difficult than was the case during the initial period of industrialization in Taiwan and Korea. More complicated production processes, the increasing rapidity with which products are being introduced, and more complex embodied technologies that result from research and development (requiring an increased ability to synthesize disparate fields of knowledge) have all reduced the efficacy of reverse engineering as a catch-up production strategy.[16]

Instead of a process of replication and homogenization of industrial structures, as the product cycle theory predicts, technological diffusion in East Asia has been partial, varies from country to country, and has remained linked throughout to a "supply architecture" built around ongoing Japanese innovation of components, machinery, and materials.[17] As a result, the evolution of a wide range of industries in other parts of the region has been different from the experience in Japan, where substantial indigenous capacity for technological innovation had already been built in the interwar period.

That the burgeoning manufacturing activity in parts of Southeast Asia should now be seen in the context of product cycle theories as a replication of what transpired in Taiwan or Korea is, at best, a gross oversimplification. Rather, the partial technological diffusion has brought about an intraregional hierarchy of production. Unlike the

[15] Cf. World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993), 319: "There is some evidence, and a growing subjective sense, that arm's-length licensing is decreasing as an option for closing technology gaps."

[16] Reverse engineering refers to the process by which a finished product is disassembled to discover how it was produced. Studies of technological change have concluded that imitation, primarily through reverse engineering, has been the single most important channel of technological diffusion. Freeman, for instance, notes the importance of reverse engineering to Japan's industrial development: from well before the First World War, the Japanese government gave priority to importing and improving on the best available technology. Christopher Freeman, *Technology Policy and Economic Performance: Lessons from Japan* (London: Pinter Publishers, 1987). Howard Pack and Larry E. Westphal make a similar argument about the importance of imitation through reverse engineering in Korea's economic growth; see Pack and Westphal, "Industrial Strategy and Technological Change," *Journal of Development Economics* 22 (June 1986).

The ability of foreign companies to imitate through reverse engineering is a reflection of the limited effectiveness of the patent system. See, for instance, Eric von Hippel, *The Sources of Innovation* (New York: Oxford University Press, 1988), 47; and Keith Pavitt and Pari Patel, "The International Distribution and Determinants of Technological Activities," *Oxford Review of Economic Policy* 4, no. 4 (1988), 36. The complexity of contemporary manufactured products, rather than patents, may be their best protection against reverse engineering.

[17] For a discussion of the notion of supply architecture, see Michael Borrus and Jeffrey A. Hart, "Display's the Thing: The Real Stakes in the Conflict over High Resolution Displays," Working Paper 52 (Berkeley: Berkeley Round Table on the International Economy, University of California, Berkeley, March 1992), 1–4.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

earlier experiences of Korea and Taiwan, the new manufacturing for export in Southeast Asia does not build on any substantial foundation of import-substituting industrialization. Nor, contrary to the product cycle theory, has there been any significant development of indigenous capital goods industries. Export manufacturing relies almost entirely on foreign technology and components and is carried out for the most part by subsidiaries of transnational corporations.

Ongoing product innovation by Japanese corporations, facilitated by the application of microelectronics technologies, has ensured not only that Japanese companies supply the core technologies for most of the region's output in industries such as consumer electronics and automobiles, but also that in many sectors, contrary to product cycle predictions, Japanese companies have not exited from production of consumer goods.

This leads in turn, to another dimension on which the contemporary regionalization of production in East Asia differs from product cycle predictions. To date regionalization has *not* generated significant reverse exports to Japan, as the product cycle theory predicts; rather, it has led to trade triangles in which technology and components are sourced from Japan while the finished products are exported to third-country markets, principally to the United States and Western Europe.

Finally, the product cycle approach, like all unilinear theorizing, is impoverished by its failure to examine the changing contexts within which industrialization occurs. Economists are fond of employing ceteris paribus assumptions to exclude such environmental influences. But things seldom do remain the same—changes in context may exert a powerful shaping influence on the course of industrialization and need to be incorporated into a more comprehensive theory of regional economic evolution. We emphasize in particular, first, the need to incorporate both geopolitics and world historical time as intrinsic rather than exogenous features of the development process and, second, the centrality of the shift to production based on regional networks for understanding the contemporary political economy of East Asia.

In the next section we examine the acceleration of the regionalization of production in East Asia following the Plaza Agreement. We then examine how networks of production operate in the electronics industry in a manner contrary to the predictions of product cycle theory. Our case studies of Korea, Taiwan, and Southeast Asia demonstrate how the recent industrial development of these countries, contrary to the flying geese analogy, has differed significantly from that of Japan. Finally, we review how the regionalization of production has led

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

primarily not to reverse exports back to Japan but to the emergence of trade triangles in which the U.S. has borne the bulk of the costs of adjusting to East Asian industrialization.

Plaza and the Regionalization of Production

Cumings provides a useful reminder that the regionalization of production in East Asia has its foundations in the Japanese colonial period. Japanese production in Taiwan, Korea, and Manchuria was an integral part of the pre-1945 Japanese empire. The postwar roots of interfirm alliances in East Asia date back to the direct investment in Taiwan by Japanese firms in such industries as electronics and machinery manufacturing in the late 1950s. These were aimed at establishing a presence in the local market.[18] These investments were followed by a series of equity and nonequity alliances between Japanese and local enterprises in response to local ownership and content regulations promulgated by the Taiwanese government.[19] The same pattern was replicated to a lesser extent in Korea in the aftermath of the signing of the Japan-Korea normalization treaty in 1965.[20]

Both quantitative and qualitative changes occurred in the regionalization of production in East Asia in the 1980s, especially in the years after the Plaza Agreement.[21] The agreement was significant not only for what it achieved directly—very large currency realignments—but also for what it symbolized, namely, the increased contentiousness of international economic relations in the Pacific region. The original tensions between Japan and the United States were extended to Korea and Taiwan, which quickly exploited the advantages they gained in the post-Plaza period as their exports became more competitive relative to those of Japan. A surge in imports from these countries in 1986–88 led the Reagan administration and Congress to increase pressure for currency appreciation and liberalization of access to their markets. Meanwhile, the increasing use of voluntary export restraints and other non-

[18] M. Kunimitsu and I. Sato, *Matsushita Denki Sangyo* (Matsushita electronic industries) (Tokyo: Kodansha, 1990).

[19] Mitchell Bernard, "Post-Fordism, Transnational Production and the Changing Global Political Economy," in Richard Stubbs and Geoffrey R. D. Underhill, eds., *Political Economy and the Changing Global Order* (New York: St. Martin's, 1994).

[20] M. Ishida, *Nikkan Sangyo Masatsu* (Japanese-Korean industrial friction) (Tokyo: Keilin Shobo, 1987).

[21] The Plaza Agreement took its name from the Plaza Hotel, New York, where a meeting of the Group of Five (France, Germany, Japan, U.K., and U.S.) agreed in September 1985 on a coordinated strategy to push down the value of the dollar vis-à-vis the currencies of its major trading partners. For details, see Y. Funabashi, *Managing the Dollar: From the Plaza to the Louvre* (Washington, D.C.: Institute for International Economics, 1989).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tariff barriers by the U.S. restricted the access of their exports to the American market.[22] Both Korea and Taiwan were "graduated" in 1989 by the U.S. from its generalized system of preferences (GSP).

Economic and political factors combined to encourage manufacturers in Japan, Korea, and Taiwan to undertake foreign investment. The magnitude of the currency realignments in the years following Plaza wrought dramatic changes in the competitiveness of domestic manufacturing. The yen was revalued by close to 40 percent in 1985–87; the NT dollar (Taiwan) by 28 percent in the same period; and the Korean won by 17 percent from 1986 to 1988. And, at a time when the currencies of Japan and the NICs (including Singapore) were appreciating against the U.S. dollar, China and the Southeast Asian countries were depreciating their currencies—which not only facilitated inward investment but also made them more attractive as export platforms.

Currency appreciations were compounded by changes in relative wages.[23] The loss of competitiveness was such that manufacturers in Japan and the Northeast Asian NICs had little alternative but to move some stages of their production offshore. China and the ASEAN countries were obvious locations.[24] Not only were they proximate but they were also comparatively well-known entities. For Taiwan there was the advantage of a "natural" link through overseas Chinese communities. And Malaysia offered the advantage of an English-speaking workforce. Furthermore, the Southeast Asian countries continued to benefit from the U.S. GSP scheme.

These countries responded to difficult economic situations by adopting measures in the second half of the 1980s to increase their at-

[22] I1 Sakong reports a study suggesting that nearly 30 percent of Korea's exports to the United States in the years 1984–89 were subject to some form of U.S. protectionist action. Cited in Sakong, *Korea in the World Economy* (Washington, D.C.: Institute for International Economics, 1993), 131.

[23] As an illustration, the average hourly labor costs in spinning and weaving in 1990 were estimated as follows (relative to the U.S. average hourly rate of $10.02): Japan 139%; Taiwan 46%; Korea 32%; Hong Kong 30%; Mexico 22%; Malaysia 9%; Philippines 7%; China 4%; Indonesia 2%. Such data must be interpreted with caution given the problems involved in conversion to a common currency. And they tell us nothing about the relative productivity of the various labor forces. Nevertheless, they do provide an indication of the magnitude of intercountry differentials. Data from Werner International in *Textile Month* (February 1991), quoted in David O'Connor, "Textiles and Clothing: Sunrise or Sunset Industry," in Jomo K. S., ed., *Industrialising Malaysia* (London: Routledge, 1993), 241.

[24] The primary focus of our discussion of this spatial extension of regional manufacturing is on ASEAN, especially Malaysia and Thailand. In the 1990s parts of coastal China have also come to figure prominently in the regionalized production networks. We do not deal with the Chinese case in this article, as the unique features of the Chinese political economy would require separate and protracted discussion. For example, China had developed a large industrial base as part of its pre-1978 development strategy. Unlike other countries in the region, China's recent promotion of export-oriented production is not so much part of a process of "industrialization" as it is one of "re-industrialization." We believe, however, that recent industrial change and the incorporation of parts of China into regionalized production networks actually buttress our central argument.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tractiveness to foreign investors. They had found themselves facing burgeoning current account deficits and increasingly serious debt problems in the mid-1980s following the decline in commodity prices associated with slower world economic growth. Also declining in real terms were official capital flows, especially overseas development assistance. Governments in Southeast Asia responded by removing past disincentives to investors (for instance, reducing uncertainty by signing investment guarantee agreements) and by introducing packages of assistance measures such as tax holidays and accelerated depreciation allowances.

The quantitative changes in the regionalization of production are reflected in part in the huge increases in the outflows of foreign direct investment from Japan, Korea, and Taiwan in the second half of the 1980s. Japan's total foreign direct investment (FDI) increased rapidly after 1986. In the four-year period 1986–89 FDI grew at an average annual rate in excess of 50 percent. By the end of this period Japan was the world's single largest source of FDI, with an annual outflow amounting to $48 billion (up from $6.5 billion in 1985). Although the *share* of Asian countries in total Japanese investment declined (because of the large outflows to North America and Europe) and the *share* of manufacturing in total Asian investments also declined, the absolute amounts invested in manufacturing in Asia rose significantly. In fact, Japan's investment in manufacturing in other Asian countries in the years 1986-89 exceeded the *cumulative* total for the whole of the 1951–85 period. In 1990 the flow of investment accelerated, with $10 billion invested in manufacturing in ASEAN and $8 billion in the Asian NICs.[25]

Within Asia, both the location and sectoral composition of Japanese investment changed dramatically. By 1985 Japanese investment flows to manufacturing in ASEAN countries already exceeded those to the NICs. But after 1986 the gap between manufacturing investments in these regions widened considerably. The principal reason was that most new Japanese investment for the production of consumer goods for the global market was switched from the NICs to ASEAN. Japanese manufacturing investment in Korea and Taiwan now focused predominantly on production for their domestic markets, and an increasing

[25] Tran Van Tho, *Technology Transfer in the Asian Pacific Region: Implications of Trends since the Mid-1980s*, Discussion Paper no. 19 (Tokyo: Japan Center for Economic Research, August 1991), 44, table 1; and Shujiro Urata, "Changing Patterns of Direct Investment and the Implications for Trade and Development," in C. Fred Bergsten and Marcus Noland, eds., *Pacific Dynamism and the International Economic System* (Washington, D.C.: Institute for International Economics, 1993), 278, table 2.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

proportion of new Japanese investment there was directed toward service industries. By 1989 barely more than a third of Japanese investment in the Asian NICs was in manufacturing.[26] In ASEAN the focus of Japanese investment moved quickly from textiles and metals to the production of electrical machinery.[27]

The growth in Taiwanese and Korean investment in ASEAN was even more spectacular. At the end of 1987 the total stock of Taiwanese investment in manufacturing in ASEAN stood at $78 million. In the following three years over $850 million was invested. As was true for Japanese investment, electronics was the single largest sector, with 39 percent of the total.[28] A similar surge, although at lower levels, occurred in outflows from Korea: in 1985 the *cumulative* investment from Korea in ASEAN amounted to only $42 million; in 1989 alone new investment from Korea amounted to $132 million. By the end of the decade Taiwan had replaced the United States as the second most important investor in ASEAN and had overtaken Japan as the single largest investor in Malaysia. The share of the four East Asian NICs combined in foreign investment in all ASEAN countries except Thailand was comparable to or exceeded that of Japan.

These data give some indication of the quantitative changes in the regionalization of production that occurred in the years immediately following the Plaza Agreement. As we will argue later, a focus on foreign investment data alone provides an incomplete picture of the increasingly regionalized production networks, since these often operate through technology licensing agreements or through other forms of production cooperation that do not involve the transborder flow of funds. Moreover, data on the share of these flows in domestic capital formation may disguise their importance for the host economies.[29]

[26] Satake Takanori, "Trends in Japanese Foreign Direct Investment in FY 1989," *Exim Review* 11 (July 1991), 97.

[27] Textiles had been the second most significant sector (after steel and nonferrous metals) in Japanese investment in ASEAN in the years 1951–86, accounting for close to 20 percent of all Japanese manufacturing investment. In the period from 1987 to 1989 fully one-third of all Japanese manufacturing investment in ASEAN countries was in electrical machinery production, another 11 percent was in general machinery production, while textiles accounted for less than 5 percent. Van Tho (fn. 25), 44, table 1.

[28] These figures are those officially recorded for Taiwanese investment. All of the evidence points to these being only a small fraction of actual Taiwanese overseas investment. The World Bank notes that Taiwan's balance of payments figures suggest that investments are twenty-five times those actually recorded; data on inflows from Taiwan reported by host countries similarly reveal very large discrepancies from official Taiwanese data. World Bank, *Foreign Direct Investment from the Newly Industrialized Economies*, Industry and Energy Department Working Paper, Industry Series Paper no. 22 (Washington, D.C.: World Bank, December 1989), 10.

[29] In Malaysia, for instance, foreign investment contributed approximately one-third of all domestic capital formation in the 1987–89 period. As we will discuss later in this article, however, subsidiaries of foreign companies are the source of virtually all manufactured exports from Malaysia. For data on the role of FDI in the Malaysian economy, see Takeshi Aoki, "Japanese FDI and the Forming of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

The data do, however, point to one important change in regional production networks in the post-Plaza years: the spatial expansion of such networks. Malaysia, Thailand, and coastal China have all become linked to production in Northeast Asia, so that we may now speak of *regionalized* manufacturing activity in a number of industries. A second prominent change is the shift from the company to the "network" as the locus of productive and innovative activity. It is the interaction between firms linked by chains of production, exchange, and distribution that now constitutes the basic organizational "unit." Firms, or even decentralized divisions within firms, maintain a degree of autonomy in the production chain, but all significant activity is in some way coordinated with other organizations in the network.[30] In the following sections we discuss how these regionalized networks of production are operating in Northeast and Southeast Asia, and why product cycle theories provide at best only a partial explanation of the evolving regional division of labor.

Regionalized Networks of Production

The integration of Malaysia, Thailand, and parts of coastal China with Northeast Asian production has been one of the most marked changes in the spatial organization of the East Asian political economy since the Plaza Agreement. While superficially this trend may appear to lend credence to the flying geese scenario, emerging organizational and spatial changes in production actually undermine many of its key assumptions. In this section we examine the rise of regional production networks and consider their implications for our understanding of the region's political economy. We use a case study from the electronics industry to highlight the problem with product cycle–based understandings.

We have argued above that the flying geese view of East Asia fails to grasp the complexities of technological change and of how technology is actually transferred. Similar problems arise with its understanding of production, the spread of which is regarded as an undifferentiated shift from country to country. The "national economy" is held to be the appropriate unit of analysis and the nature of production is ascertained by examining the flow of goods and capital between countries. That is

Networks in the Asia-Pacific Region: Experience in Malaysia and Its Implications," in Shojiro Tokunaga, ed., *Japan's Foreign Investment and Asian Economic Interdependence: Production, Trade and Financial Systems* (Tokyo: University of Tokyo Press, 1992), 75.

[30] For a discussion of this coordination in the context of Japan's domestic political economy, see Ken-ichi Imai, "Japan's Corporate Networks," in Shumpei Kumon and Henry Rosovsky, eds., *The Political Economy of Japan*, vol. 3, *Cultural and Social Dynamics* (Stanford, Calif.: Stanford University Press, 1992), 218–23.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

what is contemplated by the recommendations of the Japanese Ministry of Finance's Committee on Asia Pacific Economic Research: "It is necessary that what Japan used to do should be done by the Asian NIEs, what the Asian NIEs used to do should be done by ASEAN countries."[31] This statecentric view sees political economy as a tightly coupled process between the rise and fall of products and the rise of national economies.

The regionalization of production in East Asia has, however, come to be organized in ways that belie the neatness of the avian analogy. First, production does not migrate across countries in an undifferentiated manner. Production structures differ across time and space depending on local configurations of power, historical trajectories, and the dominant technologies of particular eras.[32] In other words, goods are made in different ways and in different contexts at different historical times. These differences apply not only comparatively to how production differs between specific places, but also relationally to the way production links places together.[33] For example, whereas export-oriented production of consumer electronics in Japan in the 1950s was organized internally within the Japanese political economy, Malaysian production in the early 1990s is part of a transnationalized process that can only in the narrowest sense be viewed as "local."

Second, the product cycle–based theory sees individual products as "disembodied" from larger industrial structures, whereby the life cycle of any given product can be treated in isolation from the myriad of other products and the organizational foundations that initially spawned it. But rather than an "ahistoric" flow of a single commodity, contemporary production needs to be seen in terms of interrelated complexes of industrial activity involving networks of firms, and continuous innovation of a range of key inputs in a multitude of related industries. The transnationalization of production has been marked by a spatial separation of ongoing innovation and the location of final assembly. This separation has undermined the notion that the transfer of assembly from one country to another will inevitably re-create the myriad backward linkages into the domestic economy envisaged by Akamatsu in his writings about the Japanese textile industry prior to the Second World War.

Finally, while transnational networks organize production in ways

[31] See Foundation for Advanced Information and Research, *Interim Report of Asia-Pacific Economic Research* (Tokyo: Foundation for Advanced Information and Research, 1990), 64.

[32] Production structure refers to the way production is organized, the social relations and subjective understandings among participants, and how particular firms are embedded in both the domestic and the global/regional political economies.

[33] See Bernard (fn. 19).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

that do not correspond to the boundaries of formal political communities, they still exist concurrently with the interstate system. The two structures to a certain extent correspond to what Giovanni Arrighi has referred to as "two logics of power."[34] Rather than collapsing economic life into a "system of states," increasingly it is more useful to look at how the two structures intersect, with all the inherent possibilities for new forms of both cooperation and conflict.

There is no better example than the electronics industry to illustrate how production linkages in East Asia are more complex than the trade and investment data conventionally used to describe them. One of the most striking changes in regional production since the Plaza Agreement has been the rapid shift of much of Northeast Asia's low-end consumer electronics production to Malaysia and, to a lesser extent, to Thailand. Most prominent has been the investment by the Japanese electronics industry, which made ninety-five separate investments in Malaysia between 1986 and 1990.[35] The pattern with Thailand is similar, if less pronounced. Available data show a similar pattern with regard to Taiwanese and, to a lesser extent, Korean electronics investment in Malaysia and Thailand.[36]

This great infusion of investment in the electronics industry represents the transfer in a mere five years of much of the low-end, export-oriented consumer electronics assembly industry that had been built up in Northeast Asia since the 1950s. For example, Japan's domestic consumer electronics production for export fell from a high of 3.8 trillion yen in 1985 to 2.2 trillion yen in 1992.[37] Exports of color televisions fell in the same period from 13.4 million sets to 4.5 million; by 1991 overseas production by Japanese companies of color TVs had risen to 22.7 million units. Surveys conducted by Japan's Ministry of International Trade and Industry indicate that in 1988 and 1989, 61 and 68 percent, respectively, of production by Japanese subsidiaries in electrical machinery–related sectors in ASEAN was for export.[38] By

[34] Arrighi, "The Three Hegemonies of Historical Capitalism," in Stephen Gill, ed., *Gramsci, Historical Materialism and International Relations* (Cambridge: Cambridge University Press, 1993), 154.

[35] Nihon Denshi Kikai Kogyokai (Electronic Industries Association of Japan), *Kaigai Hojin Risuto* (List of member corporations overseas) (Tokyo: Nihon Denshi Kikai Kogyokai, 1991).

[36] According to the Taiwan Electrical Manufacturers Association (TEAMA), between 1987 and 1991 there were over one hundred separate investments in Malaysia by member companies, and just over fifty in Thailand. Similarly, a World Bank study indicated that in the four years following the Plaza Agreement, more than one-quarter of Korean investments in Thailand was related to the production of electrical appliances. World Bank (fn. 28), 36.

[37] Nihon Denshi Kikai Kogyokai (Electronic Industries Association of Japan) *Chosa Shitsu Shirabe* (Research report) (Tokyo: Nihon Denshi Kikai Kogyokai, 1993).

[38] Policy Branch, Overseas Enterprises Section, Ministry of International Trade and Industry, *Waga Kuni Kigyo no Kaigai Jigyo Katsudo Dai 18–19 Kai* (The overseas activities of Japanese companies) (Tokyo: MITI, 1991).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

1992 Japanese electronics firms had 514 subsidiaries in Asia. The largest single number was in Malaysia (121) followed by Taiwan (95), Singapore (71), and Thailand (63).

Northeast Asian investment in ASEAN has brought a number of changes to the structure of production and exchange in the electronics industry. One example that illustrates the increasingly limited utility of an "international" approach to issues of investment, production, and exchange is the investment by the Taiwanese firm Jinbao Electronics in Thailand. Jinbao Electronics, a company based in Taipei, manufactures calculators, facsimile machines, and other office automation equipment. According to *Tian Xia* magazine's 1991 industrial survey, it was ranked 117th by total sales and 45th by export sales of all Taiwanese electronics firms in 1990.[39] It exported 88 percent of its total sales in 1990, with almost half of its exports going to the United States and Canada.[40] Jinbao is one of the larger Taiwanese electronics firms, but its export profile and the nature of its foreign investment is quite typical.

In April 1990 Jinbao opened a factory in Thailand to manufacture low-end calculators that could no longer be made in Taiwan and exported at a profit. Of its calculators, 60 percent by volume and 40 percent by value are now made in Thailand. Jinbao has been assembling, on an original equipment manufacturing (OEM) basis,[41] a majority of its calculators for Japanese companies such as Casio and Canon. Since the appreciation of the yen it has been working closely with Sharp Corporation of Osaka; and after extensive consultation with Sharp, Jinbao undertook its Thai investment. A large share of Thai production was to be made on an OEM basis for Sharp, which decided that it would rely on a supply from Jinbao rather than open a factory in Thailand itself.

The innovation behind the product, the brand name, and the marketing are Japanese. All key compoents for the calculators, such as liquid crystal displays (LCDs) and production equipment in the Thai factory such as insertion equipment, are imported from Japan. All procurement and administration are controlled from Taipei, and the management of the plant is Taiwanese. The labor is Thai. Output from the

[39] *Tian Xia, Wai Xiao Qian 100 Ming Zhong* (Taipei: Tian Xia Wen Hua Chuban Kengsi, June 1991).

[40] Much of this information is based on interviews conducted by Mitchell Bernard with company representatives, Taipei, June 1991.

[41] Original equipment manufacturing is an arrangement whereby a corporation will contract for another firm to manufacture one or more of its products to its specifications and to be marketed under its brand name.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

plant is exclusively for export. In international trade data Jinbao's production is recorded as Thai exports of electronic goods. To purchasers at the other end the products appear to be Japanese. The direct foreign investment statistics indicate a Taiwanese investment.

The emergence of these production networks in the electronics industry undermines the statecentric notions of the product cycle approach, which links the production of specific products with "national" stages of development. To see the investment in Thailand in the above example as being Taiwanese or the exported finished product as Thai is to miss the point. The "architecture" of supply of components and machinery that pervades the industry is linked to the specific skills from these different places; together they constitute a complex whole that synergistically transcends the sum of the individual transactions recorded in the investment or trade statistics.

The product cycle approach to the region's political economy would interpret this spatial shift in production as marking Japan's transition out of the consumer electronics industry. However, the continuing hierarchical nature of regional production, with its dependence on supply of Japanese components and machinery, even with the location of final assembly in Southeast Asia, marks neither the demise of the domestic consumer electronics industry in Japan nor a replication of Japan's industrial trajectory in the next tier of geese, Taiwan and Korea, as they move into higher value-added sectors vacated by Japanese producers. Japanese investment in regionalized production of consumer electronics was accompanied by continued innovation at home, building on the strength of interconnected industries. There appears to be no imminent likelihood that domestic production of consumer electronics will disappear as it did in the United States by the early 1980s. In the first seven years after Plaza, production dropped by less than 20 percent—from a 1986 high of 4.4 trillion yen to 3.6 trillion yen in 1992.[42]

In contrast to the Japanese experience, Taiwanese investments in Southeast Asian electronics assembly have been accompanied by a move away from consumer electronics production at home. In 1987, for example, Taiwan was the world's largest exporter of television monitors, with exports reaching a peak of 4.4 million sets. By 1990 exports had declined to 2.1 million sets.[43] By 1992 those producers such

[42] In the prerecession year of 1991 domestic production of consumer electronics was in fact higher than in 1986. Nihon Denshi Kikai Kogyokai (Electronics Industries Association of Japan), *Chosashitsu Shirabe* (Research report) (Tokyo: Nihon Denshi Kikai Kogyokai, various years).

[43] *Jingjibu Tongjichu* (Ministry of Economic Affairs statistics) (1991).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

as Kelin and Zhong Xin that had not abandoned domestic consumer electronics production by shifting into export-oriented manufacture of computer peripherals had virtually ceased exporting from their Taiwanese operations.[44] Consumer electronics production has focused increasingly on domestic demand. The accompanying liberalization of trade has resulted in increased imports of new generations of Japanese consumer electronics and deepening linkages between remaining producers and Japanese suppliers.[45]

The Japanese consumer electronics industry has transformed itself on the basis of product innovation and through its efforts to acquire production companies in the United States to create a tighter linkage between hardware and software. The Taiwanese industry, by contrast, is based increasingly on production at lower volumes for Taiwan's small domestic market, with producers still dependent on Japanese suppliers for key components, and increasingly acting as importers for Japanese products. This trend is not the result of the workings of the product cycle. Rather, the Taiwanese industry has only partially replicated the structure of the Japanese industry, having been unsuccessful at reproducing the innovation capacity or the components and machinery production capabilities of the Japanese industry. This important difference highlights how misleading it is to argue that overseas production by Taiwan and Korea replicates the first wave of Japanese offshore production in the 1960s and 1970s. We confront here the question at the heart of the flying geese argument: are the neighboring countries replicating the Japanese development trajectory more generally, as the analogy would suggest?

Industrial Restructuring and Changing World Order: Korea and Taiwan as Flying Geese

Industrial upgrading has become a key issue in the political economies of both Taiwan and South Korea. Altering established patterns of production has proved difficult amid the multitude of changes that have

[44] Interviews conducted by Mitchell Bernard with representatives of both companies, Taipei, March 1992.

[45] See Mitchell Bernard, "The Post-Plaza Political Economy of Taiwanese-Japanese Relations," *Pacific Review* 4, no. 4 (1991). Japanese imports of audiovisual equipment and household electrical appliances from Korea and Taiwan fell by one-third from 1989 to 1991; in the same period Japanese exports of these products to these two countries rose by over 40 percent. Consequently, the index of intraindustry trade in electronic goods between Japan and Korea and Taiwan fell from 0.55 to 0.31 in this period. Hiroshi Tanaki, "Overseas Direct Investment and Trade: Investment by Japanese Consumer Electrical Appliance Industries in ASEAN and the Import of Such Products into Japan," *Exim Review* 13 (December 1993), 27, table 15.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

taken place since the Plaza Agreement. The window of opportunity created by the appreciated yen was, by 1987, greeted with American pressure on both the Taiwanese and Korean governments to appreciate their currencies, increase market access, and enforce intellectual property rights. Domestic exporters fearing retaliation against their U.S.-bound products and influential American-trained liberal economists promoting doctrinaire free-trade policies provided domestic support for American objectives.[46] As a result, both governments have implemented domestic tariff reductions, especially for finished products, and dismantled many of the export-promotion mechanisms that were so prominent until the mid-1980s.

These changes may appear on the surface to be part of an inexorable process of adjustment similar to that undergone by Japan at the "equivalent stage" in its development. Such arguments are misleading, however, and are made on the basis of ahistorical conceptions of political economy that have little regard for the "process," as opposed to the quantitative "outcomes," of economic activity. Nor do they adequately take into account the changing structural features of the global and regional political economies that provide the context for economic change. This restructuring calls into question one of the core assumptions of the flying geese argument—that Taiwan and South Korea are replicating the Japanese experience.

Central to the argument originally developed by Akamatsu is the notion that industrialization is a process of "homogenization": as industries move from country to country, their structure and degree of backward linkage will over time replicate that of the more advanced countries whence they came. The argument equates industrial structure in Taiwan and Korea with that in Japan at a similar "stage" in its development. However, the argument that a "Japanese model" has been generalized throughout East Asia is partial at best and difficult to sustain.

One critical difference between Japanese industrialization and that of Korea and Taiwan has been in the area of technological and organizational innovation. Alice Amsden has pointed out that industrialization in both Taiwan and South Korea differed from the industrializations of the late nineteenth and early twentieth centuries in that they occurred primarily on the basis of "learning" rather than innovation.[47]

[46] For the Korean case, see Alice Amsden, "Is Business-Led Growth Working?" in D. Clark, ed., *Korea Briefing, 1992* (Boulder, Colo.: Westview Press, 1992).

[47] Alice Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989), 19.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

She further notes that "beginning with Korea and Taiwan, late-industrializing countries were the first to attempt to penetrate world export markets with little more competitive advantage than low wages."[48] By contrast, industrialization in Japan had a strong indigenous innovative base prior to the dramatic increase in both the depth and the breadth of Japan's global economic presence in the 1950s. The cotton textiles industry, upon which Akamatsu based his flying geese analogy, provides a good example. Prior to the First World War, Platt Brothers, the world's leading textile machinery firm, regularly dispatched technicians to Japan to advise Japanese customers on how to operate its machinery. The flow of know-how from the English company was halted by the war in Europe, and by war's end Platt Brothers technicians discovered that their former Japanese customers now utilized locally made machinery, such as the Toyoda power loom, that was technologically in advance of the machinery produced by the English manufacturers.[49] In addition, the prewar Japanese conglomerates (*zaibatsu*) had created innovative general trading companies (*sogo shosha*) with worldwide procurement and information-gathering capabilities. With these advances, as well as with cheaper wages, Japanese producers displaced Lancashire producers in many overseas markets.

The story in the electronics industry was similar. Japanese innovation commenced in the 1920s and 1930s, several decades prior to Sony's acquisition of transistor technology. There were also at that time significant breakthroughs in areas such as the reception of television signals and antennae technology, as well as the development of materials such as ferrite. In addition, weapons research conducted by companies such as Hitachi and Toshiba during the Second World War created the institutional framework and knowledge that was to prove so important in indigenizing foreign technology in the postwar period.[50]

The industrialization of Korea and Taiwan has been marked by a far greater and longer-lasting dependence on imported technology, primarily from Japan and to a lesser extent from the United States. Those industries that have been successful in making backward linkages from the production of end-use to intermediate goods, such as the textile machinery industry, have essentially acquired the capability of manufacturing standard products developed elsewhere, through reverse en-

[48] Ibid., 143.

[49] See Carter J. Eckert, *Offspring of Empire: The Koch'an Kims and the Origins of Korean Capitalism, 1876–1945* (Seattle: University of Washington Press, 1991), 142–43.

[50] Yamauchi Ichizo, *Kaden* (Consumer electronics) (Tokyo: Nihon Keizai Shinbunsha, 1990), 31.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

gineering, licensing of know-how, and learning by doing.[51] To equate this capability, important though it has been, with complete backward integration or a replication of the structure of the same industries in Japan would require both a narrow and a static view of what constitutes an industry. As we have noted, the pace of technological change has become more rapid, and the complexity of products in the era of microelectronics makes them far less susceptible to reverse engineering. As a consequence, manufacturing in most sectors in Korea and Taiwan depends on the continuing import of key components and machinery. A recent study of the Korean electronics industry provides an example: Bloom found that in 1987 the industry imported 36 percent of its components from Japan. This figure may considerably understate the import dependence of the industry: a 1993 Bank of Korea study found that only 38 percent of the value of semiconductors was added locally.[52]

By contrast, Japanese companies not only possessed the ability to absorb and improve upon foreign technology through indigenous R and D and the presence of innovative component manufacturers, but they also built strong marketing networks that facilitated worldwide brand recognition. Korean and Taiwanese companies in similar export industries have lacked comparable innovative capacity and have relied disproportionately on OEM manufacturing. In consumer electronics, apparel, and steel, for example, a Korean Trade Association report indicates that OEM exports exceed 80 percent of total exports.[53] Where manufacturing occurs on an OEM basis, producers inevitably depend on networks for product marketing. Furthermore, OEM contracts have often stipulated export restrictions on sales under the manufacturer's own brand labels and inhibited the development of marketing and after-sales-service capabilities. We can see, therefore, how the historical timing, the pattern of industrialization, and the specific strategies for linking up with global production networks have created in Korea and Taiwan sectoral structures as well as individual production units with characteristics that differ from those prevailing in Japan.

Analogies that equate recent increases in overseas production by Taiwanese and Korean producers with the direct foreign investments

[51] Interviews conducted by Mitchell Bernard with representatives of various medium-size and large textile companies in Korea and Taiwan in 1991 and 1992. These companies are major users and often manufacturers of textile machinery.

[52] Martin D. Bloom, *Technological Change in the Korean Electronics Industry* (Paris: OECD, 1992), 73; Bank of Korea, *List of Import-Inducing Effects of Korea's Major Goods* (in Korean) (Seoul: Bank of Korea, 1993).

[53] *Business Korea* 9 (December 1991), 29.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

made by Japanese companies in the early 1970s are equally misleading. Not only are many of these investments made by companies that have industrialized under circumstances that differed from those of their Japanese counterparts, but their "location" within networks of regionalized or globalized production also differs from that of Japanese companies. Production networks, while offering some flexibility, continue to be arranged hierarchically. Location within the hierarchy relates to the architecture of supply and the production practices of different firms that have pursued diverse strategies in their respective contexts. Location influences the nature of overseas investment. The *content* of direct foreign investment needs to be considered rather than simply relying on a measurement of the numbers of transactions and the capital flows involved. Jinbao's investment in Thailand, for example, may or may not facilitate technology transfer or increase the skill level of Thai workers. However, at the level of regional political economy Jinbao is located differently in the regional structure of production than are large integrated producers like Sharp (even though they may all be making the same products). Sharp has achieved worldwide domination in key technologies such as LCDs, has established a series of interconnected research and development centers throughout the region, and often supplies key inputs to smaller companies that actually compete with it in end-use product lines.

Korea's large electronics producers, while differing in some fundamental respects from small Taiwanese companies, also share characteristics of this pattern of industrialization within regional networks. Bloom thus concludes that underlying forces such as the way Korean production was linked to that of Japan, the early addiction to OEM, the vulnerability from excessive reliance on exports to the United States, and a regime of cheap labor combined to shape, and continue to be present in, the globalization undertaken by Korea's large conglomerates (*chaebol*).[54] Just as was the case with Jinbao's investment in Thailand, Korean companies—lacking design or marketing capabilities, structurally locked into production hierarchies from which they derive key components and other inputs, and dependent on low-cost production to maintain export competitiveness—will transnationalize their firms differently from the way it is done by companies coming out of other industrial contexts.

There have been significant increases in research and development

[54] See Martin D. Bloom, "Globalization and the Korean Electronics Industry," *Pacific Review* 6, no. 2 (1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

spending in both Korea and Taiwan since the Plaza Agreement. Between 1986 and 1990, for example, Korean R and D increased from U.S. $1.7 billion to $4.5 billion.[55] This increase also needs to be understood in relation to the broader structural changes outlined above rather than automatically seen as evidence that the second-tier geese are now entering the next stage of development. A major reason for this increase in R and D relates back to our discussion of technological change. As we argued above, mature industries should not be viewed in static terms. Even those older industries in which Koreans or Taiwanese were reasonably proficient producers were opened up by the incorporation of new technologies. Thus, new technologies were needed not only to move into more sophisticated product lines but also to maintain established positions in core industries. Furthermore, significant expenditures on R and D are required to ensure that production units possess the requisite skills to continue to link their activities to the technological changes that are proceeding at prodigious speed in the centers of innovation of the global political economy. Ironically, the result of increased expenditure on R and D and the upgrading of production capabilities has been an increase in dependent patterns of procurement of components and capital goods that are part of the regional architecture of supply as evidenced by the steady expansion of both Taiwanese and Korean bilateral deficits with Japan.[56] In other words, the increases in expenditures for R and D have not produced more independent "national" industries.

This continued dependence on imported technologies can be seen in export-oriented industries such as computers, where growing competition and/or inelastic demand for low-technology products required manufacturers to change their products for export and upgrade their technology. Small-scale Taiwanese factories that previously manufactured monochrome and color television monitors for export have become world leaders in the production of monochrome and color monitors for computers: in 1991 Taiwan accounted for 39 percent of global production of computer monitors.[57] As is the case in many other sectors, however, the key component, the cathode ray tube, is procured exclusively from Japanese suppliers, and these tubes represent between 30 and 35 percent of the cost of a monitor.[58] This example further un-

[55] OECD, *Main Science and Technology Indicators* (Paris: OECD, 1992).

[56] For several examples relating to Taiwan, see Bernard (fn. 45).

[57] Taiwan Institute for Information Industry, Taipei, 1992 (mimeographed statistics).

[58] Interview conducted by Mitchell Bernard with representatives of Sampo Corporation, Taipei, March 1992.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

derscores how the accumulation of production skills and know-how has allowed Taiwanese producers to enter more sophisticated sectors, but in ways that do not diminish their structural dependence on Japanese technology.

Finally, there is an argument advanced by product cycle proponents that protectionism, particularly in the United States, has systematically capped export surges from Japan, thereby providing special incentives to Korean or Taiwanese producers to move into these industries. This ostensibly aids in the replication of the Japanese development pattern.[59] This argument too rests on a static conception of economic activity. The automobile industry illustrates how production does not simply pass in an undifferentiated form from one country to another.

Voluntary export restraints (VERs) were imposed by the U.S. government on automobile exports from Japan in 1982. At the time the VER was implemented, there were significant breakthroughs in the organization of production of automobiles in Japan. These enabled Japanese car makers to produce compact-sized automobiles more cheaply than their Korean counterparts, who were relying on the import and assembly of components using cheap labor. The Korean Ministry of Commerce estimated at the time that the production cost of a Hyundai Pony, despite being built in Korea where wage rates were one-seventh of those in Japan, was U.S. $3,972, compared with an estimated cost of $2,300 for a Toyota Corolla built in Japan.[60] As the VER quotas were quantitative, Japanese manufacturers initially shifted their automobile exports away from the low end of the car market in their quest for increased profits. Hyundai, Korea's premiere auto maker, seized the opportunity to enter the U.S. market. But Japanese companies, rather than relinquishing the low end of the market, embarked on investments in the U.S. and Canada. Facing increased competition from these Japanese transplants, Korean auto exports to the U.S. peaked in 1988 and then began to drop back dramatically.[61]

The reasons for the short-lived success of the Korean auto exports to the U.S. underscore the limitations of the assumption at the core of the flying geese analogy that technological trajectories are linear. Thus, Japanese companies did not simply abandon the small car market. Rather, direct investment in North America gave them the capacity to recapture by the late 1980s what had been lost through VERs. In addi-

[59] Petri (fn. 9, 1993), 32.

[60] Mitchell Bernard, "Northeast Asia: The Political Economy of a Postwar Regional System," University of Toronto/York University Joint Centre for Asia Pacific Studies, *Asia Papers* 2 (1989), 24.

[61] Andrew E. Green, "South Korea's Automobile Industry," *Asian Survey* 32 (May 1992), 425–28.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tion, changes in production techniques enabled Japanese car makers to continue to compete with the Korean manufacturers despite higher labor costs. Furthermore, the labor unrest that beset the Korean auto industry in late 1987 precipitated six consecutive years of wage rises, thus undermining one of the bases of Korean competitiveness. Finally, rapid technological change in the industry, such as the computerization of engine control and the use of new materials, has meant that "the Koreans, unlike the Japanese of twenty years ago, are chasing a target that is moving away from them at an ever increasing rate."[62] It has also resulted in imported materials and components constituting nearly a quarter of the value of automobiles produced in Korea.[63]

The process of industrial transformation in Taiwan and Korea has taken place in a specific historical context—with its own forms of technology and structures of production—that in certain respects differ strikingly from the context that marked the initial periods of Japanese industrialization. Similarly, the context within which restructuring must take place in Taiwan and Korea features the rapid and ongoing technological change that is associated with the initial stages of the microelectronic revolution and a changed geopolitical structure in the post–cold war era. The changed context along with the institutional differences, the legacy of territorial division, and the small size of both countries' domestic markets, make analogies between structural change in Korea and Taiwan in the 1990s and that of Japan in the 1970s tenuous. The fact that the specific nature of industrialization in Korea and Taiwan condition how restructuring will proceed within a changing global context also raises a series of questions about the rapid economic change currently taking place in much of Southeast Asia and whether we are witnessing the ascent of new geese there.

Southeast Asia: The Latest Geese?

In the second half of the 1980s Malaysia, Thailand, and Indonesia enjoyed economic growth at rates comparable to those achieved by Korea and Taiwan during the 1970s and 1980s. The expansion of their manufactures exports, albeit from a small base, was even more impressive.[64]

[62] Ibid., 427.

[63] Bank of Korea (fn. 52).

[64] In Malaysia, for instance, the value of exports of machinery and transport equipment more than trebled in the years 1986–90. By the end of this period they alone accounted for more than a quarter of total exports. Total manufactures contributed more than half of the country's export earnings—up from 36 percent at the start of this period. World Bank, *World Development Report* (New York: Oxford University Press, 1988 and 1992).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

This remarkable economic performance has earned these three countries the labels of "new NICs" and "next-tier NICs." Some observers consider the growth of manufactured exports from ASEAN countries a vindication of the flying geese analogy: Malaysia and Thailand and, to a lesser extent, Indonesia and the Philippines are the latest geese in line for takeoff.[65] But this is another instance of analogy triumphing over analysis. The experience of the Southeast Asian economies has been very different from that predicted by product cycle theory.

Unlike those predictions, and unlike the experience of Korea and Taiwan, the recent move to manufacturing for export in Southeast Asia did not build on an experience of successful import-substituting industrialization. Rather, the new exporting industries have been grafted onto economies whose small manufacturing sectors are notable for their histories of rent seeking and inefficiency.

A second feature follows from this lack of a domestic manufacturing tradition. The technological dependence that we noted as characteristic of Korean and Taiwanese high-technology production is present in a much more extreme form in Southeast Asia. Yoshihara's comment that the latter region has experienced "technologyless" industrialization is still largely applicable.[66] In contrast to the Northeast Asian experience, there is a very heavy dependence on subsidiaries of transnational corporations for these manufactured exports: for instance, in Malaysia at the end of the 1980s, foreign-controlled companies contributed 99 percent of the exports of electronics, over 90 percent of the exports of machinery and electrical appliances, over 80 percent of the exports of rubber products, and 75 percent of textile and apparel exports.[67]

Much of the early foreign direct investment in export-oriented manufacturing in Southeast Asia occurred in export-processing zones (EPZs). This trend has become less pronounced, as governments in the

[65] Authors who have applied the flying geese analogy to Southeast Asia include Hank Lim, "Japan and the Asian Newly Industrializing Economies," in Harry H. Kendall and Clara Joewono, eds., *Japan, ASEAN, and the United States* (Berkeley, Calif.: Institute of East Asian Studies, University of California, Berkeley, 1991), 216–17; Edward K. Y. Chen, "Trade Policy in Asia," in Seiji Naya et al., eds., *Lessons in Development: A Comparative Study of Asia and Latin America* (San Francisco: International Center for Economic Growth, 1989); Saburo Okita, "The Outlook for Pacific Cooperation and the Role of Japan," *Japan Review of International Affairs* 1 (Spring–Summer 1987), 4; and Steven Schlosstein, *Asia's New Little Dragons: The Dynamic Emergence of Indonesia, Thailand, and Malaysia* (Chicago: Contemporary Books, 1991), 32. The analogy is applied to the Southeast Asian electronics industry in Ian Chalmers, "International and Regional Integration: The Political Economy of the Electronics Industry in ASEAN," *ASEAN Economic Bulletin* 8 (November 1991).

[66] Yoshihara Kunio, *The Rise of Ersatz Capitalism in Southeast Asia* (Singapore: Oxford University Press, 1988), 111.

[67] Data from Bank Negara Malaysia, *Quarterly Bulletin* 6 (March–June 1991), 50; and World Bank, *World Tables 1991* (Washington, D.C.: World Bank, 1991).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

region have recently allowed firms established outside the zones the same access to duty-free imports as prevails in the EPZs, provided these imports are utilized in manufacturing for export. But an oft-noted characteristic of the EPZs still applies in most instances to these foreign subsidiaries in Southeast Asia: the lack of backward linkages with the local economies. The various surveys of EPZs in Southeast Asia conducted in the mid-1980s all found that there was little linkage between firms in the zones and the local economy.[68] Rather than backward linkages to the local economy, firms tended to establish links with other companies operating within the same zone or in other free-trade zones. For instance, a study by Lim and Fong suggests that foreign subsidiaries in Malaysia's EPZs were more integrated with Singapore's free-trade industrial sector than with the "local" industry.[69]

To what extent has the new wave of investment in export-oriented manufacturing in Southeast Asia corresponded to this earlier pattern? Although the relatively recent date at which the new investment was undertaken makes any conclusions tentative, some preliminary evidence is nonetheless available from surveys of Japanese subsidiaries operating in Malaysia. These show that although there was a significant increase in the value of components procured locally in the late 1980s, the *share* of local procurement in overall output of these subsidiaries rose only marginally—in the electronics sector from 29.8 percent in 1987 to 32.5 percent in 1989. Of particular note is that less than one half of "local" procurement in the electronics sector was derived from Malaysian companies. Twenty-four percent was purchased from other Japanese subsidiaries operating in Malaysia and an additional 22 percent from the Malaysian-based subsidiaries of European and American companies. Although the value supplied by Malaysian companies had more than doubled over the years 1987-89, the *share* of these companies in "local" procurement remained constant.[70]

These data illustrate how misleading figures on "local" content can

[68] For an overview, see Peter G. Warr, "Export Processing Zones: The Economics of Enclave Manufacturing," *World Bank Research Observer* 4 (January 1989). A survey of the Penang Free Trade Zone in Malaysia found that linkages between firms in the zone and the local economy were not well developed, "despite more than a decade of operation." Helen E. S. Nesadurai, "The Free Trade Zone in Penang, Malaysia: Performance and Prospects," *Southeast Asian Journal of Social Science* 19, nos. 1, 2 (1991), 122.

[69] Linda Y. C. Lim and Pang Eng Fong, *Foreign Direct Investment and Industrialisation in Malaysia, Singapore, Taiwan and Thailand* (Paris: OECD Development Centre, 1991), 110.

[70] Thus in 1989 purchases from local companies amounted to ony 14.5 percent of the components utilized by Japanese subsidiaries in the electronics sector. This sector had the highest local content: local companies provided only 3.3 percent of inputs in the transport field. All data in this section are from a JETRO survey of Japanese subsidiaries in Malaysia reported in Aoki (fn. 29).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

be in an era of regionalized manufacturing networks. The participation of local in the sense of domestically owned firms in these networks is far less widespread in Southeast Asia than in Korea or Taiwan. This raises the question of whether national ownership really matters in a networked regional economy.[71] The answer is probably yes for countries like those in Southeast Asia that are at early stages of industrialization, because it is more likely that technology will be transferred to the domestic economy if domestic firms are more intensively involved in the networks. Leslie O'Brien concludes in her detailed survey of manufacturing companies in Malaysia that locally owned or controlled companies were more likely than their foreign counterparts to forge links with the national economy and to modify or manufacture their own production equipment to suit local conditions.[72]

Nonetheless, the dominance of Japanese subsidiaries in production networks in Southeast Asia provided ASEAN economies with an advantage over those of Korea and Taiwan, at least in the short term. Some of the fall in the imports of consumer electronic products from Korea and Taiwan that occurred in the Japanese market in the late 1980s was the result of their displacement by imports from Japanese subsidiaries in Southeast Asia. Imports of color TVs from Korea and Taiwan, for example, fell from 1.6 to 1.3 million units in the years 1989–91. In the same period imports from Malaysia rose from 2,000 to 385,000 units. By the latter date Malaysia had replaced Taiwan as Japan's second most important source of imports of this product and was also the single largest supplier of radio cassette recorders to the Japanese market.[73] Since Japanese companies maintained control over the use of technology in their Southeast Asian subsidiaries, the companies in these production networks were more likely to be given access to the latest production technologies than were their locally owned competitors in Korea and Taiwan.

Surveys suggest that Japanese companies wish to increase their local content purchases—both from other Japanese subsidiaries and from domestic firms.[74] This preference has become more pronounced with the rise in the value of the yen, and it is encouraged by the adoption of production techniques such as "just-in-time" manufacturing that favor sourcing from nearby suppliers. The principal barrier preventing an increase in inputs from domestic firms is the inability of local companies

[71] Cf. Robert B. Reich, *The Work of Nations* (New York: Alfred A. Knopf, 1991).
[72] O'Brien, "Malaysian Manufacturing Sector Linkages," in Jomo (fn. 23), 157, 159.
[73] Tanaka (fn. 45), 31, table 17.
[74] Aoki (fn. 29).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

to produce goods of the desired quality with the reliability required by the Japanese. Again this reinforces our argument about the difficulties facing local firms seeking to enter production networks in the microelectronics era, with its exacting engineering standards. Domestic firms are handicapped by other factors that distinguish the local economies from those of Korea and Taiwan, especially the low educational levels of the workforce and the small percentage of GDP that is spent on research and development.[75] To date there have been few instances of technical or managerial assistance being provided by transnational subsidiaries to domestic companies to help improve their quality control.

The predominance of foreign firms in many sectors of manufacturing in Southeast Asia and the continued dependence of such firms on technology and component inputs from overseas casts doubt on the relevance of the flying geese analogy for Southeast Asia. Certainly, even if the different regional, global, and technological environments in which industrialization is occurring are ignored, the *pattern* of manufacturing development in these countries—the overwhelming dependence on foreign firms, export-oriented manufacturing that does not build on an import-substituting base, and the lack of linkages with local components suppliers—is very different from that experienced by Japan or by Korea and Taiwan.

Part of our argument, of course, is that the different regional, global, and technological environments in which the new wave of industrialization is taking place *cannot* be ignored. The relationship between state and society in the various Southeast Asian countries not only is far removed from that in Japan, Korea, or Taiwan, but also varies significantly across Indonesia, Malaysia, the Philippines, and Thailand.[76] As the ideology of economic liberalization has become hegemonic, the move to export-oriented industrialization in Southeast Asia, contrary to the Northeast Asian experience, has been accompanied by a reduction in state intervention in local economies. And the global economic environment is significantly different for these "late late" developers than that faced by Korea and Taiwan in the 1960s. In the post–cold

[75] This is estimated at 0.5 percent to 0.6 percent of GDP for Malaysia, but the bulk of local expenditure for R and D is devoted to the primary products sector. Ibid., 77. In 1990 Korea spent approximately 2 percent of its GDP on R and D; the equivalent figure for Taiwan was 1.65 percent.

[76] For one dimension of state-society relations, the relationship between business and the state, see, for instance, Gary Hawes and Hong Liu, "Explaining the Dynamics of the Southeast Asian Political Economy: State, Society, and the Search for Economic Growth," *World Politics* 45 (July 1993); and Andrew MacIntyre, ed., *Business and Government in Industrializing East Asia* (Ithaca, N.Y.: Cornell University Press, 1994).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

war era the United States is no longer willing to tolerate sustained bilateral trade imbalances. The changed global economic environment is one reason why the failure of the last stage of the product cycle—the "reverse export" of goods to the country where innovation originally occurred—to materialize has become so politically contentious, as we discuss in the following section.

Product Cycles and Trade Triangles

The final stage of the product cycle occurs when firms in the originating country cease manufacturing the now standardized product and the domestic market is serviced instead by imports from foreign producers. In East Asia this final stage of the cycle has not materialized. The unwillingness of Japanese producers to abandon products or to import foreign production back into Japan on a significant scale has caused trade triangles to become the dominant pattern—triangles where inputs are purchased from Japan (and increasingly from Taiwan and Korea), processed in the NICs and to an increasing extent in ASEAN and China, and exported to third country markets rather than to Japan. Had the product cycle gone full circle, then a more self-contained yen bloc would have emerged as exports of final manufactured products flowed back to Japan from other countries in East Asia. As Frankel and Petri have demonstrated, the intensity of intraregional trade in East Asia (measured as a percentage of total trade), despite having increased in the second half of the 1980s, is substantially less than in previous periods and is much lower than that of the European Community.[77] The failure of the product cycle to go full circle provides much of the explanation for why a yen bloc has not emerged.

There is of course no good reason in economic theory why any bilateral trade relationship should be in balance. Countries have different factor endowments; trade imbalances may be offset by capital flows. But this is an instance where sound economics does not necessarily make for sound politics. Bilateral trade imbalances, particularly in manufactured goods, are inevitably of great political salience (especially in a period when low rates of overall world economic growth make the politics of domestic economic adjustment more difficult).

The regionalization of production in East Asia has had two prominent consequences for trade patterns. First, all the states in the region

[77] Jeffrey Fankel, "Is a Yen Bloc Forming in Pacific Asia?" in R. O'Brien, ed., *Finance and the International Economy* (New York: Oxford University Press, 1991); and Petri (fn. 9, 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

(with the exception of China, where, as deemed necessary, the state has strictly controlled imports) experienced growing trade deficits with Japan as their imports not only of Japanese consumer goods but also of capital goods and components used in domestic manufacturing rose in the second half of the 1980s (see Table 1).

Studies of foreign subsidiaries of Japanese corporations have shown that they tend to import a larger percentage of inputs from their home country than do branches of TNCs domiciled elsewhere.[78] The average reliance on imports from Japan by Japanese affiliates in all manufacturing sectors in Asia (including food and fuel products where there is a high percentage of local procurement) is over 40 percent. Japanese affiliates in machinery manufacturing in the Asian NICs and ASEAN source close to half of their inputs from Japan (see Table 2). The dependence on Japan for capital equipment is even higher—more than 75 percent for affiliates in ASEAN in the late 1980s.[79] The growth in imports of capital and intermediate goods in the second half of the 1980s was not offset by compensating increases in exports of manufactured goods to Japan. Although such exports did increase, their volumes lagged well behind the growth of imports from Japan. The consequent trade imbalances heightened tensions between Japan, on the one hand, and Korea, Taiwan, and the ASEAN states, on the other.

The growth of Korean and Taiwanese investment in Southeast Asia has also been accompanied by growing trade imbalances. Although equivalent data on sourcing from home countries are not available for NIC subsidiaries in ASEAN, data collected for a World Bank survey show that the subsidiaries of NIC-based companies in Asia rely heavily on imported capital equipment and components. The study found that 90 percent of the NIC subsidiaries surveyed imported more than 50 percent of their inputs; 37 percent imported *all* of their raw materials, components, and capital goods.[80] The rapid growth in the deficit in trade in manufactures between Malaysia and Thailand, on the one hand, and Korea and Taiwan, on the other (see Table 1), can be attrib-

[78] Mordechai E. Kreinin, "How Closed Is Japan's Market? Additional Evidence," *World Economy* 11 (December 1988). Sakong reports data from a Korean Ministry of Finance study that show that in 1986, 74 percent of the imports of the subsidiaries of Japanese corporations operating in Korea came from Japan, 8 percent from the United States, and 18 percent from other countries. For U.S. subsidiaries 50 percent of imports came from the United States, 20 percent from Japan, and 30 percent from other countries. Sakong (fn. 22), 124, table 5.10.

[79] Data from Takaoka Hirobumi and Satake Takanori, "Report on Results of FY 1990 Foreign Direct Investment Survey," *Exim Review* 11 (July 1991), 18; and Shujiro Urata, "Japanese Foreign Direct Investment and Its Impact on Foreign Trade in Asia," in Takatoshi Ito and Anne O. Kreuger, eds., *Trade and Protectionism* (Chicago: University of Chicago Press, 1993).

[80] World Bank (fn. 28), 24, table 8.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

TABLE 1
BALANCE OF TRADE IN MANUFACTURES
(FOR 1985 AND 1992, IN U.S. $ MILLIONS)[a]

	Japan	*U.S.*	*EC*	*Korea*	*Taiwan*
China	(−10,368)	(−323)	(−3,321)	(n.a.)	(n.a.)
	−595	+19,902	+9,119	−491	(n.a.)
Korea	(−4,097)	(+6,754)	(+245)	—	(n.a.)
	−9,069	+4,799	−2,313	—	+831
Taiwan	(−2,976)	(+11,841)	(+792)	(n.a.)	—
	−13,724	+14,534	+7,213	−831	—
Malaysia	(−2,502)	(−64)	(−854)	(−225)	(−242)
	−5,798	+4,242	+1,627	−740	−626*
Thailand	−(2,133)	(−38)	(−694)	(−158)	(−177)
	−8,254	+2,934	+131	−1,198	−1,194*
Singapore	(−3,695)	(+456)	(−786)	(−238)	(−444)
	−11,820	+3,051	+467	−1,198	−698*

SOURCE: UN Trade Tapes accessed through the International Economics Data Bank, Australian National University.

[a] Data in parentheses are for 1985; other data are for 1992 (except where marked with an * where data are for 1991). Trade balances are for countries in the left column with trading partners in the other columns.

TABLE 2
PROCUREMENT PRACTICES OF JAPANESE SUBSIDIARIES IN AREA
(% FOR 1988–89)

	NICs			*ASEAN*		
Sector	*Local*	*Japan*	*Other*	*Local*	*Japan*	*Other*
General Machinery	45.5	51.7	2.8	49.2	45.6	5.2
Electrical Machinery	46.4	45.3	8.4	32.5	40.3	27.2
Transport Machinery	61.2	38.0	0.9	39.0	47.3	13.7
Precision Machinery	31.0	57.6	11.5	7.9	85.0	7.1

SOURCE: *Wagakuni Kigyo no Kaigai Jigyo Katsudo Dai 19 Kai, Dai 18 Kai,* Tsusansho (1990).

uted in large part to the growth in imported inputs by local subsidiaries of companies from these countries. And undoubtedly many subsidiaries of NIC companies in ASEAN also imported technology and components from Japan.

The second major repercussion that regionalization of production in East Asia has had on trading patterns is seen in the dramatic changes in balances in manufactures trade between the region and the United States, and to a lesser extent the European Community (see Table 1). Whereas in 1985 both Malaysia and Thailand ran trade deficits in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

manufactured goods with the United States, in the early 1990s both were earning surpluses substantially in excess of $2 billion annually. Over the same period, China, Malaysia, Thailand, and Singapore all turned their trade deficits in manufactures with the European Community into surpluses.

Korea and Taiwan similarly increased their trade surpluses in manufactures with the European Community. Their manufacturing trade surpluses with the United States grew much more slowly in the post-Plaza period, however, as increasing pressure was applied by the Reagan and Bush administrations for restraints on their exports and simultaneously for the opening of their markets to American goods. By 1990 the value of manufactured exports from Korea and Taiwan to the U.S. had fallen back from the peaks reached in 1987–88. The fall in the nominal value of these exports by the end of the 1980s is all the more striking given the appreciation of the Korean and Taiwanese currencies against the dollar. The decline in its trade surplus with the United States has been particularly problematic for Korea, which has no significant alternative market to offset its growing trade deficit with Japan. Taiwan, by contrast, has not only been more successful in maintaining its trade surplus with the United States but has also made significant sales of inputs to the burgeoning industry of mainland China.

These aggregate data illustrate two facets of the regional political economy in the second half of the 1980s. First, political pressure on the Northeast Asian states to reduce their trade surpluses with the U.S. has had a direct impact on the regional pattern of trade, and in particular has encouraged the movement of production to Southeast Asia and China. Second, the data show that the dominant pattern in regional trade has been the emergence of trade triangles—the import of components and capital goods from Japan and the Northeast Asian NICs and the export of finished products to the United States and the European Community—because the incomplete nature of the product cycle has not led to compensatory increases in Japanese imports of these finished products.

Debate continues to rage about Japan's pattern of trade. Alternative econometric models lead to different conclusions as to whether the volume of Japan's imports is unusual for an industrialized country once account is taken of Japan's resource structure and its geographical location. We share Paul Krugman's view that "it seems fair to argue that, in the general debate, the view that Japan does import less than one might have expected wins on points. . . . On the whole, then, the conventional wisdom survives crude empirical testing more or less in-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tact."[81] Only a small percentage of the production of Japanese affiliates in the NICs and especially in ASEAN is exported back to Japan. In fiscal year 1989, for instance, only 10.4 percent of the sales of Japanese subsidiaries located in ASEAN were to the Japanese market.[82] In contrast, exports to other markets accounted for over 25 percent of sales. And of the more than 50 percent of sales that were made to the "local" market, many of these products were undoubtedly subject to further processing within regional production networks and then exported.[83]

The consequence is that the United States, in particular, has had to bear the majority of the costs of adjustment to industrialization in East Asia (as demonstrated by the data in Table 3). The U.S. share in East Asian exports of manufactures has fallen for most countries since 1985, with the decline of the U.S. dollar relative to the yen. But for all the countries listed in Table 3, the United States continues to absorb a much larger percentage of manufactured exports than Japan does. Not all of this can be attributed to the relative size of the two economies (Japan's GDP in 1989 was estimated to be 55 percent of that of the United States). Only for South Korea and Thailand does Japan absorb half the level of exports that the United States does; for most of the other countries the ratio is closer to a quarter. The Japanese market's share of manufactured exports from China, Korea, and Singapore in 1992 was actually below what it was in 1980.

A desire to circumvent trade barriers and reduce trade tensions with the United States was a primary motivation for the post-Plaza wave of foreign investment from Northeast Asia. The danger for the host countries is that they will become embroiled in similar tensions as they become significant factors in the U.S. trade deficit, as has happened with the People's Republic of China.[84] Japan's share in the manufac-

[81] Paul Krugman, "Introduction," in P. R. Krugman, ed., *Trade with Japan: Has the Door Opened Wider?* (Chicago: University of Chicago Press, 1991), 4. For further discussion, see John Ravenhill, "The 'Japan Problem' in Pacific Trade," in Richard Higgott, Richard Leaver, and John Ravenhill, eds., *Pacific Economic Relations in the 1990s: Conflict or Cooperation?* (Boulder, Colo.: Lynne Rienner, 1993), chap. 5; and Edward J. Lincoln, *Japan's Unequal Trade* (Washington, D.C.: Brookings Institution, 1990).

[82] Takaoka and Satake (fn. 79), 17.

[83] The share of local, Japanese, and other markets varied considerably across sectors. Local sales were particularly high in transport machinery (over 90 percent) and iron and steel (over 85 percent). It is particularly noteworthy that sales to other export markets were highest (over 35 percent) for the most rapidly growing sector of Japanese manufacturing investment—electrical machinery. See Takaoka and Satake (fn. 79), 17; and additional data from Urata (fn. 79). Japanese subsidiaries operating in Korea do send a larger percentage of their exports to Japan. In 1985, however, one-third of the exports of Japanese subsidiaries in Korea went to the U.S. market. Sakong (fn. 22), 122, table 5.8.

[84] In 1992 the United States had a trade deficit of $12.5 billion with the member states of ASEAN (excluding Brunei). The deficit with the People's Republic of China in the same year was $18.3 billion. Malaysia contributed 4.7 percent of the total U.S. trade deficit; Thailand 4.2 percent; Indonesia 2.1 percent; Singapore, 2.0 percent; and the Philippines 1.9 percent. Data from United States Information Service, Wireless File, May 17, 1993.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

TABLE 3
U.S. AND JAPANESE SHARES IN EAST ASIAN EXPORTS OF MANUFACTURED GOODS[a]

	1980		*1984*		*1992*	
	U.S.	*Japan*	*U.S.*	*Japan*	*U.S.*	*Japan*
Hong Kong	34.1	2.8	46.0	3.3	28.6	4.3
South Korea	29.0	13.3	38.6	10.1	25.1	12.8
Singapore	21.0	8.1	32.5	3.6	26.0	5.7
Taiwan	38.3	7.3	53.7	6.3	35.2	8.3
China	9.0	11.0	18.9	10.8	23.7	9.7
Malaysia	31.7	5.7	41.3	5.9	29.1	7.5
Thailand	17.5	7.1	29.4	6.8	31.7	16.3

SOURCE: Calculations from UN trade tapes accessed through the International Economic Data Bank, Australian National University.

[a] Manufactures defined as SITC 5-8 less 67 and 68.

tured exports of most countries in the East Asian region has grown in the period since Plaza, but not at a sufficiently rapid rate to satisfy either Washington or the governments of the East Asian countries and certainly not nearly fast enough to offset its sales of capital goods and components. Despite the realignment of currencies following Plaza, despite the increase in Japan's intraindustry trade with the NICs, and despite the success of other East Asian countries in increasing their manufactured exports to the Japanese market, the failure of the product cycle to reach its final stage has ensured that the United States continues to bear the bulk of the burden of adjustment to the industrialization of the countries of East Asia—with the inevitable concomitant trade tensions.

CONCLUSION

We have argued that the emerging political economy of East Asia should be understood in terms of the relationship between changes in the global political economy, changes in the political economy of individual states, and changes in the organization of production. A growing body of literature emphasizes how patterns of state-society relations vary across countries that have been labeled NICs.[85] We are

[85] See, inter alia, Amsden (fn. 47); Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries* (Ithaca, N.Y.: Cornell University Press, 1990); Gary Gereffi and Donald Wyman, eds., *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia* (Princeton: Princeton University Press, 1992); Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton: Princeton University Press, 1990); idem, "East Asia's Economic Success: Conflicting Perspectives, Partial Insights, Shaky Evidence," *World Politics* 44 (January 1992).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

attempting to build on this literature by linking comparative and international political economy perspectives through a microlevel focus on the organization of production and technological innovation.

Despite the growing literature on the diversity of the East Asian experience, the analogy of flying geese still remains commonplace. Our intention has been to demonstrate why the analogy, as well as other approaches that suggest a unilinear path of industrial transformation, should finally be laid to rest.[86] Not only has the pattern of industrialization in Korea and Taiwan been dramatically different from that pursued by the original goose, Japan, but it in turn differs significantly from the current rapid growth in manufacturing exports in Southeast Asia. The flying geese analogy fails to note that the changing global political economy and developments in technology and production techniques preclude a homogenization of industrial structures. Although Korea and Taiwan, and more recently Malaysia and Thailand, may be exporting products in the same industries in which Japan enjoyed export success a few years ago, the context in which they are doing so is substantially different, in terms of both industrial organization and geopolitics.

Contrary to the predictions of the flying geese argument, the industrial exports of these countries remain heavily dependent on capital goods and technologies imported primarily from Japan. In Korea and Taiwan original equipment manufacturing is still dominant in high-technology industries. In Southeast Asia export-oriented manufacturing is conducted overwhelmingly by the subsidiaries of transnational corporations. This dependence on Japanese technology, coupled with the dependence of Japanese corporations on other locations in the region for lower-cost labor for assembly operations, has produced a new regional division of labor that is based not on national economies but on regionalized networks of production.

The emergence of these regionalized production networks has profound implications for the way in which we study political economy. The manner in which production structures are linked together across countries is influenced by and in turn also influences national politics. As we have suggested in this article, a focus on the production network alerts us to the limitations of readily available national data such as

[86] The neoclassical theory of growth suggests that economies will converge as they exploit their comparative advantage to pass through successive stages of growth. We find more persuasive the recent endogenous growth theories that emphasize the role of technology in generating increasing returns to scale: rather than convergence, a widening gap may develop between richer and poorer economies. On endogenous growth models, see, for instance, Paul Romer, "The Origins of Endogenous Growth," *Journal of Economic Perspectives* 8 (Winter 1994).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

those on trade, investment, and local content. The example of the calculators produced by the Taiwanese company Jinbao is typical of how regionalized production networks are complicating the interpretation of trade and direct foreign investment data. Similarly, the discussion of Malaysia suggests how regional networks of production may render data on "local" content of dubious value. To gain an understanding of how production is now organized within the East Asian region requires moving beyond national data to a study of the linkages effected within networks.

Rather than following product cycle models in focusing on the flow of a specific product in isolation from all others, or perceiving technologies as having linear patterns of diffusion, specific sectors need to be seen as a part of "complexes" of industrial activity. For example, the establishment of a network of production by Japanese electronics producers in East Asia indicates not so much the diffusion of individual products as the way production is linked across countries, involving clusters of companies, many with long-term non–arm's length affiliations, producing large numbers of *interrelated* products. The interrelatedness of products is one reason Japanese companies have been unwilling, contrary to the predictions of product cycle theory, to vacate sectors in which products appear to have achieved "mature" status. Changes in production techniques, increased product differentiation, or the advent of whole new technologies can have the effect of "dematuring" specific products. Thus, as research and development becomes increasingly more nonlinear, abandoning production of certain mature products carries the risk of losing know-how in manufacturing techniques or component manufacturing that might have been critical to seemingly nonrelated future production.

Are we dismissing the flying geese analogy prematurely? Might not other East Asian countries ultimately follow the Japanese path as their technological capabilities mature? We think not. To answer in the affirmative would be to ignore the important changes that have occurred in the global political economy and in production techniques in the last twenty years. Steeper learning curves, increased costs of research and development, and the necessity of locating within an established distribution network all exacerbate the problems faced by economies seeking to reduce their technological dependence. As we have shown, even the most advanced NICs continue to depend very heavily on imported technologies for their production of sophisticated manufactures. Industrialization in East Asian countries has occurred in different historical periods and under different circumstances. This has

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

brought about a partial diffusion of industrial organization and technological capabilities, and it has produced new hierarchies in the regional division of labor.

To acknowledge the existence of hierarchies and dependencies is not to deny that they may be mutually beneficial to participating actors. The regionalization of production has opened new opportunities for entry into networks producing sophisticated manufactures. Many Korean and Taiwanese companies have made significant progress in industrial deepening, in applying advanced technologies, and in upgrading the skills of their labor force. Contrary to the skepticism of some dependency theorists, the subsidiaries of transnational corporations in the electronics industry in Southeast Asia have generally not behaved in a footloose manner. Even if low-cost labor was the initial attraction for such investors, they now seem to be equally concerned about retaining access to the skilled labor pool that has been established.[87] The recent experience of Southeast Asia as well as of Korea and Taiwan points to the important role that production networks may have in helping to resolve collective action and other developmental problems. A focus on production networks is an essential complement to research on the state and on domestic private actors.[88] And inevitably it leads to a focus on bargaining between the various local and transnational parties.[89]

Dependency within regional production hierarchies may facilitate increased productivity and enhance skill formation. But it can also inhibit indigenous innovation or, as is often the case in East Asia where foreign suppliers of key inputs are also competitors, delay supply of new technologies and thereby affect the speed with which new products are developed and marketed. Dependency can also give rise to political problems. Bureaucrats and politicians, in particular, can be acutely sensitive to dependency and can perceive it as diminishing their policy options or state power. Dependency and how it is perceived are also salient in the formation of the identity of a political community. A historical legacy of oppression, such as that suffered by Koreans at the hands of Japanese imperialism, can be a crucial ingredient in the identity formation of a political community. Subsequent technological dependence on Japan in a different historical context, as

[87] See Lim and Fong (fn. 69).

[88] For an argument stressing the need to broaden research horizons on collective action problems beyond the focus on state strength, see Richard F. Doner, "Limits of State Strength: Toward an Institutionalist View of Economic Development," *World Politics* 44 (April 1992).

[89] Richard F. Doner, *Driving a Bargain: Automobile Industrialization and Japanese Firms in Southeast Asia* (Berkeley, Calif.: University of California Press, 1991).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

manifested in the large bilateral trade deficits that characterize Korean-Japanese trade, may continue to be politically unacceptable because it is perceived as a threat to the shared identity of large numbers of Korean people, and to their understanding of their history. This is not necessarily a threat to economic "development" or the material well-being of the community (although it may be), but it is just as important in precipitating political action. In other words, the noneconomic aspects of dependency matter. It is in this context that the failure of the product cycle in East Asia to come full circle—with the resulting large imbalances in trade both within the region and between the region and the United States—takes on increasing political importance.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

STATE POWER, INSTITUTIONAL CHANGE, AND THE POLITICS OF PRIVATIZATION IN RUSSIA

By MICHAEL MCFAUL*

IN January 1992 Russia's first postcommunist government launched a comprehensive economic program to transform the Soviet command system into a market economy. Privatization was and remains the heart of this plan.[1] The original program had a clearly defined objective, namely, to create profit-seeking corporations, privately owned by outside shareholders and not dependent on government subsidies for their survival.[2] As of two years later, however, this objective had not been achieved. By the summer of 1993 insiders had acquired majority shares in two-thirds of Russia's privatized and privatizing firms, state subsidies accounted for 22 percent of Russia's GNP, little if any restructuring (bankruptcies, downsizing, unbundling) had taken place within enterprises, and few market institutions had been created.[3] During the

* The author would like to thank the Carnegie Corporation of New York for supporting the research of this article and Annelise Anderson, David Bernstein, Elizabeth Cousens, Larry Diamond, Lynn Eden, Jim Goldgeier, Arthur Khachikian, Sangeev Khagram, David Holloway, Sarah Mendelson, Donna Norton, Flavia Pellegrini, Tova Perlmutter, Steve Solnick, and Steve Stedman for comments on earlier drafts.

[1] President Yeltsin, national television address, August 19, 1992; and Deputy Prime Minister Anatolii Chubais, in "Chubais Schitaet Shto Glavnaya Zadacha 1993 Goda—Perekhod k Kachestvennoy Privatizatsii," *Izvestiya-FP*, March 12, 1993. See also Andrzej Brzeski, "Post-Communism from a Neo-Institutionalist Perspective," *Journal of Institutional and Theoretical Economics* 148 (March 1992), 195; and Stanley Fisher and Alan Gelb, "The Process of Socialist Economic Transformation," *Journal of Economic Perspectives* 5 (Fall 1991), 98.

[2] "Gosudarstvennaya Programma Privatizatsii i Munitsipal'nykh Predpriyatii v Rossiiskoi Federatsiya na 1992 God," in *Rossiiskii Rynok Tsennykh Bumag: Privatizatsiya, Normativnye Akty*, vol. 4 (Moscow: Nezavisimaya Investisionnaya Firma et al., December 1992). On the necessity of outside owners to effect "real" privatization, see David Lipton and Jeffrey Sachs, "Privatization in Eastern Europe: The Case of Poland," *Brookings Papers on Economic Activity* 1 (1990), 35; and the interview with Deputy Prime Minister Anatolii Chubais, in "Snova 'Fabriki-Rabochim'?" *Argumenty i Fakty*, April 16, 1993, p. 4.

[3] There has been only one recorded bankruptcy, while official unemployment, a key indicator in discerning the level of restructuring, is still less than .5%. See Leyla Boulton, "Bankruptcy Law Claims First Victim," *Financial Times*, September 17, 1993, p. 3. On credits, see World Bank, *Subsidies and Directed Credits to Enterprises in Russia*, 11782-RU, April 8, 1993, v. On insider ownership, see "Obzor Investii i Privatizatsii," *Kommersant'*, no. 7, February 15–21, 1993, p. 16. For an overview of the lack of restructuring and unbundling, see Philippe Aghion et al., "Industrial Restructuring in Eastern Europe" (Manuscript, European Bank for Reconstruction and Development, London, April 1993).

World Politics 47 (January 1995), 210–43

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

first two years of its existence, the Russian state simply did not manage to dismantle old Soviet institutional arrangements governing property rights of large enterprises.[4] Specifically, the state failed to implement its original vision of privatization, enforce hard budget constraints for large enterprises, or stimulate the creation of market-supporting institutions such as a legal code regarding private property and corporate governance or a social safety net. In sum, the allocation of property rights according to market principles had not yet even begun to occur.

Why not?

This article argues that the particular set of institutions constituting the Russian state was not capable of realizing the originally defined objectives of privatization. Thus, during the Soviet era enterprise directors had de facto already seized many of the rights associated with ownership of property. When these property rights were challenged by the Yeltsin government's privatization program, directors organized to defend their interests and were successful because of the particular institutional configuration of the Russian state at the time. Specifically, these directors organized to capture the Congress of People's Deputies; this holdover from the Soviet era, initially ignored by the Yeltsin government, eventually reasserted itself as an important component of the state in both defining and implementing state policies regarding privatization. In the initial battles between the Russian government's blueprint for privatization and the interests of these directors' interest groups, societal forces from the ancien régime prevailed.

By examining privatization of large state enterprises, a critical component of successful economic transformation in Russia, this article seeks to explore more generally the relationship between state power and revolutionary economic transformation.[5] Section I first defines state power and then makes an institutional argument for why a strong state is necessary for bringing about rapid socioeconomic transformation, whether to a command or to a capitalist economy. Section II then turns to the specific case study examined in this article—the reorganization (of the lack thereof) of property rights in Russia. This section describes the institutions, collective identities, and organizations involved in the assignment and exercise of property rights in the Soviet

[4] This article focuses on the privatization of large state enterprises, which constitute the bulk of all Russian property, and does not address the more straightforward privatization of shops, services, and small enterprises.

[5] The creation of private property rights (or the lack thereof) is therefore a subset or case study of the larger phenomenon of economic transformation. Regarding postcommunist transitions, other dependent variables within the larger set of economic transformation might include price liberalization, macroeconomic stabilization, or structural adjustment.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

era. A large portion of property rights was already allocated well before August 1991, creating powerful societal groups with real interests to defend in the postcommunist period. Section III addresses the institutional designs of the Soviet and Russian states. From being the strongest state in the world under Stalin, the Soviet regime had significantly weakened by the end of the Gorbachev era. The Russian state that emerged from the collapse of the Soviet Union continued on a downward spiral, bordering on collapse by the fall of 1993. Section IV then discusses how the two variables—"strong" economic interest groups in society and a "weak" state—interacted to (1) produce insider ownership in most of the privatizing large enterprises, (2) stimulate the flow of credits and subsidies to insolvent firms, and (3) retard the formation of market-supporting institutions. Section V concludes by exploring two plausible counterfactuals to the actual history of Russian state development: a more authoritarian state and a more democratic state.

I. State Power and Economic Transformation

Revolutions are rare and distinct moments in history characterized by "a sweeping, fundamental change in political organization, social structure, economic property control and the predominant myth of social order, thus indicating a major break in the continuity of development."[6] In emphasizing the *simultaneity* of radical change in both the polity and the socioeconomic structure, this definition distinguishes revolutions from situations in which the polity and/or government changes without altering the organizing principles of the socioeconomic structure and from historical developments in which the socioeconomic structure changes without altering the basic organization of the polity. Coups d'états, rebellions, and even changes in regime that do not precipitate a synchronous transformation of the socioeconomic system are not considered revolutions here.[7] These phenomena are re-

[6] Sigmund Neumann, "The International Civil War," *World Politics* 1 (April 1949), 333–34. The term revolution is problematic, laden with normative assumptions. Most scholars of revolutions, including Marxists, political conflict theorists, and functionalists, subsume this basic description within their definitions of revolution. Disagreements arise when other features, such as class conflict, violence, or individual relative deprivation, are added to the definition. For discussions of the different definitions of revolutions, see Theda Skocpol, *States and Social Revolutions: A Comparative Analysis of France, Russia, and China* (Cambridge: Cambridge University Press, 1979), chap. 1; Charles Tilly, "Revolutions and Collective Violence," in Fred Greenstein and Nelson Polsby, eds., *Handbook of Political Science*, vol. 3 (Reading, Mass.: Addison-Wesley, 1975); and two very useful survey articles, Lawrence Stone, "Theories of Revolution," *World Politics* 18 (January 1966); and Jack Goldstone, "Theories of Revolution: The Third Generation," *World Politics* 32 (April 1980).

[7] For a broader, more diffuse definition of revolution that includes such events, see Charles Tilly, *European Revolutions*, 1492–1992 (Oxford: Blackwell, 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

lated to revolutions in that they are abrupt and often lead to the reorganization of the polity.[8] It is the assumption of this essay, however, that regime changes that do not include the reorganization of the socioeconomic system—and, first and foremost, the reallocation and reordering of property rights—have outcomes that differ from those of regime changes which involve reordering both systems, the political and the economic. Similarly, evolutionary changes in the structure and distribution of property rights are also not considered revolutions. Aspects of modernization can serve as the long-term causes of revolutions, but constitute a class of events that is analytically distinct from rapid and simultaneous changes in both polity and economy.[9]

While events may look simultaneous in the broad sweep of history, successful revolutions have a characteristic sequence: change in the state comes first, followed by change in the economy.[10] An autonomous and effective state is a necessary condition for carrying out revolutionary economic transformation.[11] Paradoxically, therefore, even if

[8] Writers on democratization often do not make the distinction between changes in the polity and the simultaneous transformation of both the polity and the economy. See Guillermo O'Donnell and Philippe Schmitter, *Transitions from Authoritarian Rule: Tentative Conclusions*, vol. 4 (Baltimore: Johns Hopkins University Press, 1986); and Philippe Schmitter, "Reflections on Revolutionary and Evolutionary Transitions: The Russian Case in Comparative Perspective," in Alexander Dallin, ed., *Political Parties in Russia* (Berkeley: International and Area Studies, University of California, 1993).

[9] In choosing this definition, my purpose is not to engage in the philosophical debate about what constitutes a "real" revolution. Rather, I more modestly seek to assign an operational definition to the phenomenon to be explained and to delineate the universe of cases that can be compared. Guided by this definition, other cases of revolution would include the French Revolution, the Russian Revolution, all successful twentieth-century communist revolutions (China, Vietnam, Cambodia, Mozambique, etc.), all successful anticommunist revolutions (Poland, Hungary, Czech Republic, Nicaragua, etc.), and Iran. This definition also excludes such cases as the American Revolution, the revolutions of 1848, the Mexican Revolution, or successful national liberation struggles (India, Ghana, Zimbabwe, etc.) in which the basic ordering principles of the economic system were not changed. On the importance of this definitional exercise for the scientific method, see Ernest Nagel, *The Structure of Science* (New York: Harcourt, Brace and World, 1961).

[10] Unlike structuralists, this article distinguishes between revolutionary situations and revolutionary outcomes to underscore the idea that not all revolutionary situations end in revolutionary outcomes. See Charles Tilly, *From Mobilization to Revolution* (Reading, Mass.: Addison-Wesley, 1978), chap. 9; idem (fn. 7), chap. 7; and Samuel Huntington, *Political Order and Changing Societies* (New Haven: Yale University Press, 1968), 266–67.

[11] On the important role of autonomous and capacious states in carrying out economic reform more generally (that is, not only in revolutionary transitions), see Stephen Haggard and Robert Kaufman, "Institutions and Economic Adjustment," in Haggard and Kaufman, eds., *The Politics of Economic Adjustment* (Princeton: Princeton University Press, 1992), 7; Joel Migdal, *Strong States and Weak Societies: State-Society Relations and State Capabilities in the Third World* (Princeton: Princeton University Press, 1988), 4–5; Dietrich Rueschemeyer and Peter Evans, "The State and Economic Transformation," in Peter Evans, Dietrich Rueschemeyer, and Theda Skocpol, eds., *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), 49; Stephen Krasner, "United States Commercial and Monetary Policy: Unraveling the Paradox of External and Internal Weakness," in Peter Katzenstein, ed., *Between Power and Plenty: Foreign Economic Policies of Advanced Industrial States* (Madison: University of Wisconsin Press, 1978), 60; Ellen Kay Trimberger, *Revolution from Above: Military Bureaucrats and Development in Japan, Turkey, Egypt and Peru* (New Brunswick, N.J.: Transaction Books, 1978).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the goal of economic transformation is to stimulate market forces and eliminate state planning, a strong state is still needed to extract the state from the economy.

The state is the set of government institutions that define and implement national policy.[12] In postcommunist Russia these institutions have included the president's office, the government or Council of Ministers (the prime minister, deputy prime ministers, ministers, and so forth), the Supreme Soviet, and the Congress of Peoples' Deputies, as well as the administrative offices, ministries, bureaucracies, and soviets subordinate to these three bodies.[13] State power has two main components: autonomy and capacity.[14] State autonomy refers to the state's ability to define independent preferences. State capacity is a measure of the state's ability to implement preferences.[15] The degree of consensus within the state is a key determinant of its ability to define preferences independently of leading economic interests groups.[16] The effectiveness and cohesiveness of government institutions are key determinants of the state's capacity to implement these preferences.[17] State power must also be measured in relation to the strength of the leading interest groups in society.[18] The ability of the state to define in-

[12] On the distinction between state, government, and regime, see Stephanie Lawson, "Conceptual Issues in the Comparative Study of Regime Change and Democratization," *Comparative Politics* 26 (January 1993); and Robert Fishman, "Rethinking State and Regime: Southern Europe's Transition to Democracy," *World Politics* 42 (April 1990). In this essay, the term government (*pravitel'stvo*) has an even more specific connotation. It refers to the Council of Ministers, headed by the prime minister and deputy prime ministers, appointed by the president but approved (until its dissolution) by the parliament.

[13] Of course, many other important institutions such as the army or police are also part of the Russian state. Listed here are only those institutions that have figured prominently in the politics of privatization.

[14] Peter Katzenstein, "Introduction: Domestic and International Strategies of Foreign Economic Policy," in Katzenstein (fn. 11), 16; Eric Nordlinger, *On the Autonomy of the Democratic State* (Cambridge: Harvard University Press, 1981).

[15] Some states define independent preferences but cannot implement them, while others have the capacity to implement independent preferences but do not.

[16] The continuum between strong and weak states should not be confused with the range of regime types. While authoritarian regimes are generally considered to be more capable of achieving this internal consensus than are democratic polities, this essay does not make this assumption. Empirical comparisons of successful economic reform in the Third World have demonstrated that authoritarian regimes can be just as weak or weaker than democratic regimes in defining and implementing policies. See Karen Remmer, "The Politics of Economic Stabilization: IMF Standby Programs in Latin America, 1954–1984," *Comparative Politics* 19 (October 1986); Stephan Haggard, "The Politics of Adjustment: Lessons from the IMF's Extended Fund Facility," in Miles Kahler, ed., *The Politics of International Debt* (Ithaca, N.Y.: Cornell University Press, 1986); Barry Ames, *Political Survival* (Berkeley: University of California Press, 1987); and Stephan Haggard and Robert Kaufman, "Economic Adjustment in New Democracies," in Joan Nelson, ed., *Fragile Coalitions: The Politics of Economic Adjustment* (Washington, D.C.: Overseas Development Council, 1989).

[17] Rueschemeyer and Evans (fn. 11), 51–53; and Thomas Callaghy, "Toward State Capability and Embedded Liberalism in the Third World: Lessons for Adjustment," in Nelson (fn. 16), 116–18.

[18] Theda Skocpol, "Bringing the State Back In: Current Research," 19; and Rueschemeyer and

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

dependent preferences and then implement them depends not only on the internal coherence and capacities of the state but also on the relative intensity, organization, and consensus of societal actors affected by the implementation of the state's actions. Whereas strong states can define and implement policies that challenge the preferences and undermine the interests of leading social interest groups, weak states cannot.

This hypothesis about the necessity of state power for economic transformation is derived from a set of theoretical assumptions about institutions and institutional change during revolutionary periods. Economies are structured, organized, and facilitated by economic and political institutions.[19] Economic institutions establish norms, rules, and procedures for economic actors and organizations, to the end of decreasing uncertainty, reducing transactions costs, and thereby facilitating economic activity.[20] Certain institutions cannot be created or enforced by individual economic actors.[21] These political and economic institutions in turn stimulate the development of certain kinds of collective actors, organizations, and social groups.[22]

During periods of stasis or evolutionary change, economic and political institutions can emerge spontaneously among actors who derive mutual benefit from them.[23] For revolutionary economic transforma-

---

Evans, "The State and Economic Transformation," 68, both in Evans, Rueschemeyer, and Skocpol (fn. 11). To argue that state and societal power are relational is not to make a tautologous statement about their variance. On the contrary, as the discussion below demonstrates, values of strength can be assigned to each independently, after which their causal relation to each other can be observed.

[19] Robert Bates, *Beyond the Miracle of the Market: The Political Economy of Agrarian Development in Kenya* (Cambridge: Cambridge University Press, 1989); Oliver Williamson, *The Economic Institutions of Capitalism* (New York: Free Press, 1985).

[20] Douglass North, *Institutions, Institutional Change and Economic Performance* (Cambridge: Cambridge University Press, 1990); Harold Demsetz, "The Theory of the Firm Revisited," in Demsetz, *Ownership, Control and the Firm*, vol. 1 (Oxford: Basil Blackwell, 1988).

[21] Max Weber, *Economy and Society,* ed. Guenter Roth and Claus Wittich (New York: Bedminster, 1968); Karl Polyani, *The Great Transformation* (Boston: Beacon Press, 1957); Alexander Gershenkron, *Economic Backwardness in Historical Perspective* (Cambridge: Belknap Press of Harvard University Press, 1962); Albert Hirshman, *The Strategy of Economic Development* (New Haven: Yale University Press, 1958); and Douglass North, *Structure and Change in Economic History* (New York: W. W. Norton, 1981).

[22] North (fn. 20), 7, 99; Jack Knight, *Institutions and Social Conflict* (Cambridge: Cambridge University Press, 1992), 3; G. John Ikenberry, "Conclusion: An Institutional Approach to American Foreign Economic Policy," *International Organization* 42 (Winter 1988), 223.

[23] This is the rational choice or positivist version of neoinstitutionalism. This essay does not take issue with this theoretical explanation for institutions *under* the conditions these theorists generally assume. On the contrary, in discussing the evolution of property rights under the Soviet system, this essay draws upon many of the insights from this perspective. It argues that conditions for the spontaneous emergence of collectively beneficial institutions do not exist during periods of revolutionary upheaval. For evolutionary or static approaches to institutions, see F. A. Hayek, "Notes on the Evolution of Systems of Rules of Conduct," in *Studies in Philosophy, Politics, and Economics* (Chicago: University of Chicago Press, 1967); and Armen Alchian, "Uncertainty, Evolution, and Economic Theory," *Journal of Political Economy* 58 (April 1950). For positivist statements about neoinstitutionalism, see Terry

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tion to occur, however, economic institutions of the ancien régime must be consciously and deliberately destroyed, while new economic institutions and a supportive environment for them must be created.[24] In such contexts, these institutions do not change of their own accord; they are changed[25]—with the state the entity that must make the changes.

Impetus for this institutional destruction cannot be expected to come from social groups that benefited from the ancien régime. On the contrary, the demolition of old institutions threatens the interests, if not the very existence, of these collective identities.[26] Social groups of the old order will therefore organize to resist fundamental economic transformation. By contrast, individuals or collective actors that did not benefit from the previous institutional structures can mobilize extrainstitutional or antisystemic organizations—for example, liberation movements, united fronts, or guerrilla armies—to challenge the existing polity and economy. Such a confrontation creates a revolutionary situation in which opposing social groups make competing claims for sovereign authority.[27]

This condition of dual or multiple sovereignty is resolved only when one side—the ancien régime or the revolutionary challengers—(re)captures the state. If the revolutionaries seize the state, this institution then becomes the principal instrument for destroying old institutions and creating new ones. Endowed with few or no resources from the past system, these revolutionaries rely on the state to destroy old economic institutions and then construct or facilitate the construction

---

Moe, "Interests, Institutions, and Positive Theory: The Politics of the NLRB," *Studies in American Political Development* 2 (1987); and Margaret Levi, *Of Rule and Revenue* (Berkeley: University of California Press, 1988). Useful reviews of this literature include Terry Moe, "The New Economics of Organization," *American Journal of Political Science* 28 (November 1984); Paul Cammack, "The New Institutionalism: Predatory Rule, Institutional Persistence, and Macro-Social Change," *Economy and Society* 21 (November 1992); the opening chapters of Walter Powell and Paul Dimaggio, eds., *The New Institutionalism in Organizational Analysis* (Chicago: University of Chicago Press, 1991); and Sven Steinmo, Kathleen Thelen, and Frank Longstreth, *Structuring Politics: Historical Institutionalism in Comparative Perspective* (Cambridge: Cambridge University Press, 1992).

[24] James March and Johan Olsen, *Rediscovering Institutions: The Organizational Basis of Politics* (New York: Free Press, 1989), 64–65.

[25] This conception is consistent with the path-dependent approach to institutions and institutional change. See Stephen Krasner "Approaches to the State: Alternative Conceptions and Historical Dynamics," *Comparative Politics* 16 (January 1984); Robert Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993); Steinmo, Thelen, and Longstreth (fn. 23); and North (fn. 20).

[26] Huntington (fn. 10), 310; Adam Przeworski, *Democracy and the Market: Political and Economic Reforms in Eastern Europe and Latin America* (Cambridge: Cambridge University Press, 1991), chap. 4; International Monetary Fund et al., *The Economy of the USSR: Summary and Recommendations* (Washington, D.C.: World Bank, 1991).

[27] Charles Tilly (fn. 10), 19; Jack Goldstone, *Revolution and Rebellion in the Early Modern World* (Berkeley: University of California Press, 1991), 9.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of new institutions in support of a new economic order.[28] The set of political institutions constituting the state must, however, also be reconfigured in order to be a useful tool of socioeconomic transformation. First, states that have just fallen to revolutionary challengers are weak, whatever their constitution.[29] Second, and more importantly, states designed to support and be supported by one form of socioeconomic system do not have the capability to first create and then sustain a new socioeconomic order. "Capitalist" states cannot make "socialist" socioeconomic systems; "socialist" states cannot create the conditions for the emergence of a "capitalist" socioeconomic system.

This formulation regarding the process of economic transformation provides an important component missing from both liberal and Marxist (but not Leninist) theories of revolutionary change, and it challenges the neoliberal orthodoxy concerning economic reform in the former communist world. Both Marxist and liberal theories of socioeconomic transformation locate the engine of change within society. Marxist theories identify the cause of revolution as the contradiction between the forces of production and the relations of production: revolutionary change results when class-based upheavals from below dislodge the ruling class.[30] Liberal approaches also identify the causes of revolutionary change within society—whether individual relative deprivation, demographic changes, competing interest groups, or modernization.[31] In this conception, revolutionary change is often treated as a temporary albeit sometimes necessary historical event on the road to greater modernization of the socioeconomic system.

Neither liberal nor Marxist theories of socioeconomic transformation treat the state as an independent variable influencing political and economic outcomes.[32] According to Marxist theories, the state either

[28] See V. I. Lenin, *State and Revolution* (New York: International Publishers, 1932).

[29] Skocpol (fn. 6). For an opposite view, see Evelyn Davidheiser, "Strong States, Weak States: The Role of the State in Revolution," *Comparative Politics* 24 (July 1992).

[30] Karl Marx, "Critique of Political Economy," reprinted in Lewis S. Freuer, *Marx and Engels: Basic Writings on Politics and Philosophy* (Garden City, N.Y.: Doubleday, 1959), 43–44. Even Theda Skocpol, despite her focus on the state, argues that social revolutions "are rapid, basic transformations of a society's state and class structures: and they are accompanied and in part carried through by class-based revolts from below." Skocpol (fn. 6), 4.

[31] On individual deprivation, see Ted Gurr, *Why Men Rebel* (Princeton: Princeton University Press, 1971). On demographic changes, see Goldstone (fn. 27). On modernization, see Mancur Olsen, "Rapid Growth as a Destabilizing Force," in James Davies, ed., *When Men Revolt—and Why* (New York: Free Press, 1971); and Charles Tilly, "Does Modernization Breed Revolution?" *Comparative Politics* 5 (January 1973).

[32] To the extent that they represent either perspective, Huntington (as liberal) and Skocpol (as Marxist) are the two most important exceptions. Neither author, however, devotes much attention to the role of the state in *bringing about* a revolutionary change in the socioeconomic system. See Huntington (fn. 10); and Skocpol (fn. 6).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

represents the interests of the dominant class (instrumental Marxism) or defends the underlying mode of production (structural Marxism).[33] For liberals, the state is the arena in which competing social groups vie for allocation of resources. The outcome of this competition is "simply the resolution of a vector of forces emanating from a variety of different groups."[34] In either conception, the state cannot be the engine of change; it can only be the custodian or the manifestation of the status quo.

Both perspectives may succeed in identifying potential preconditions for revolutionary change—situations that may lead to revolutionary moments and the formation of antisystemic, revolutionary movements.[35] Neither, however, offers an adequate explanation for how societal conditions that precipitate revolutionary situations can lead to revolutionary outcomes, that is, to actual lasting change in a given socioeconomic system. To account for the *process* of making revolutionary change, the state must be understood as an independent variable.[36] In every twentieth-century revolution, whether communist, capitalist, or Islamic, revolutionaries have first seized the state and then used it to bulldoze a new socioeconomic order into place.[37] To accomplish this revolutionary project, the state had to be sufficiently autonomous relative to the dominant (though not necessarily the majority of) societal

[33] Structural Marxists or neo-Marxists do treat the state as autonomous. In their conceptions, however, the state is autonomous so that it can defend the existing mode of production and not just the specific interests of individuals or collectivities from the dominant class. See Nicos Poulantzas, *Political Power and Social Classes* (London: New Left Review, 1975).

[34] Krasner (fn. 25), 225.

[35] This essay is not about the "causes" of revolution, a subject beyond the scope of this essay. Without challenging or endorsing either Marxist or liberal theories of revolution, I nonetheless argue that neither model can explain revolutionary outcomes without bringing in the state as an independent variable.

[36] Theoretically, spontaneous societal forces could lead to the revolutionary transformation of a political and socioeconomic system. Similarly, a revolutionary transformation implemented by social groups outside of the state is conceivable. Empirically, however, neither of these theoretically possible modes of revolutionary change has occurred. Beginning with the model of the French Revolution and then codified by Lenin's writings on the strategy of revolution, all successful revolutionaries have seized control of the state as a means to implement or facilitate the organic process of socioeconomic change. See Lenin (fn. 28); and Immanuel Wallerstein, *Revolution as Strategy and Tactics of Transformation* (Working paper, Fernand Braudel Center for the Study of Economics, Historical Systems and Civilizations, State University of New York at Binghamton, 1992).

[37] Huntington's distinction between Western and Eastern revolutions highlights the fact that Eastern revolutions (i.e., peasant guerrilla movements) tend to begin the process of economic transformation within the territories they control *before* they actually seize the state apparatus in the capital. It is my contention, however, that the "state" in these liberated territories is in fact effectively controlled by the guerrilla movement at the time of economic transformation. Moreover, national economic transformation is only undertaken once the capital has fallen. See Huntington (fn. 10); Terence Ranger, *Peasant Consciousness and Guerrilla War in Zimbabwe* (Berkeley: University of California Press, 1985); and Basil Davidson, *The People's Cause: A History of Guerrillas in Africa* (Essex, England: Longman, 1981).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

groups to define a new set of preferences and policies, and powerful enough to act against the interests of leading social forces of the ancien régime.[38] This conception of the state's role in economic transformation departs from neoliberal theories and policies regarding transitions to market economies. Orthodox neoliberals fear strong states,[39] believing that they use their power to intervene, distort, and prey upon the market. Neoliberals thus favor minimalist governments.[40] If the state can only be extricated from the economy, they contend, markets will work: competition will occur, prices will adjust, and resources will be rationally allocated.

Neoliberal economists underestimate the role states play in market economies in providing those institutions that facilitate transactions but are not created by market forces. More importantly, however, neoliberal economists fail to appreciate the critical role of the state in transitions that require the creation of conditions for the emergence of a market economy in a system previously organized according to nonmarket principles.[41] Preexisting institutional arrangements that distort free-market competition will not naturally disappear once prices are freed.[42] These lagging institutions will continue to distort prices and impede the organic emergence of markets and market institutions until they are deliberately dismantled. Regarding the case of privatization in particular, the neoliberal perspective has failed to account for the fact that property rights had de facto already been allocated according to nonmarket norms and principles during the Soviet era. As explained in the following section, directors of state enterprises were the primary beneficiaries of this Soviet system of property rights. When the Soviet Union collapsed in the fall of 1991, these directors and their claims to property rights were still in place.

[38] During revolutionary situations the internal organization of states changes, as do states' capacities. Not surprisingly, the imperative to achieve socioeconomic change has often led to the emergence of more centralized, more powerful regimes. See Alexis de Tocqueville, *The Old Regime and the French Revolution*, trans. Stuart Gilbert (Garden City, N.Y.: Doubleday, 1955); Skocpol (fn. 6).

[39] Deepak Lal, *The Poverty of "Development Economics"* (London: Institute of Economic Affairs, 1984).

[40] Bates (fn. 19), 5; James Buchanan, Robert Tollison, and Gordon Tullock, eds., *Toward a Theory of Rent-Seeking Society* (College Station: Texas A & M University Press, 1980). For this perspective with specific reference to postcommunist transitions, see Anders Aslund, *Post-Communist Economic Revolutions: How Big a Bang?* (Washington, D.C.: Center for Strategic and International Studies, 1992), 21.

[41] The danger, of course, is that a state which is capable of destroying the old institutional order is also strong enough to destroy or distort the new institutional order. This dilemma, as it relates to Russia, is discussed in the conclusion.

[42] Luiz Carlos Bresser Pereira, Jose Maria Maravall, and Adam Przeworski, *Economic Reforms in New Democracies* (Cambridge: Cambridge University Press, 1993), 207.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

II. Soviet Property: Institutions and Owners

The organization and structure of societal groups that Russia inherited from the Soviet regime were neither "weak" nor "flat."[43] Soviet civil society was small, nascent, and only starting to emerge before the collapse of the USSR in 1991.[44] Social groups or special-interest groups located *within* the state, however, were organized, cohesive, and powerful.[45] These interest groups did not wither, disband, or weaken when the Soviet state formally collapsed. Rather, they became autonomous units located somewhere between state and society. Two years after the dissolution of the Soviet state, Russia's postcommunist civil society was still dominated by social units constructed according to the organizing principles of the Soviet regime.

Regarding property, directors of state enterprises constituted the most important and well-defined special-interest group. Well before the collapse of the Soviet regime, the Soviet institutional arrangements governing property rights allowed directors to appropriate many of the rights associated with ownership.[46] Agency theory, derived from analyses of complex organizations in capitalist economies, helps to illuminate how this transfer of property rights occurred.

In the Soviet economy as originally designed under Stalin, the Party/

[43] Juan Linz and Alfred Stepan, "Political Identities and Electoral Sequences: Spain, the Soviet Union, and Yugoslavia," *Daedalus* 121 (Spring 1992), 123; and Claus Offe, "Capitalism by Democratic Design? Democratic Theory Facing the Triple Transition in East Central Europe," *Social Research* 58 (Winter 1991), 876.

[44] See Gail Lapidus, "State and Society: Towards the Emergence of Civil Society in the Soviet Union," in Seweryn Bialer, ed., *Politics, Society, and Nationality: Inside Gorbachev's Russia* (Boulder, Colo.: Westview Press, 1989).

[45] Failure to make this distinction between social units organized outside the state and social units still within the Party-state has resulted in a great deal of confusion in assessments of the strength of Soviet (and now Russian) society. Those who understood these within-regime social groups to be the equivalents of units of civil society erroneously portrayed the Soviet Union as a pluralist regime, for example, Jerry Hough, *The Soviet Union and Social Science Theory* (Cambridge: Harvard University Press, 1977), 8. Equally inaccurate, however, were descriptions that treated the Soviet regime as a unitary actor in which these within-regime social groups were considered insignificant, nonautonomous actors. Because the lines between state and society were so blurred, neither approach to Soviet state-society relations (often politicized in American domestic debates) was very useful.

[46] Much of the information in the following section was derived from extended interviews (more than twenty hours each) with Nikolai Ryzhkov and Vitalii Vorotnikov, two industrial directors who later worked in state ministries and finally the CPSU Politburo. In 1985 Ryzhkov became prime minister of the USSR. The interviews were conducted during the summer of 1992 as part of the Hoover Archives Oral History Project on the former Soviet Union. Interviews conducted by the author between June 1992 and July 1993 with directors at the following large state enterprises also inform this section: in Moscow Oblast—Tsagi, Troitsk, Khrunichev, Almaz, Vympel, Impuls', Mikron, Machinostroenie, SPARC; in St. Petersburg—Svetlana, Ferrite, Leninetz, Arsenal, and Klimov Works; in Saratov—Saratov Aviation Plant, Saratov Electrounit Production Amalgamation, SEPO; in Nizhnii Novgorod—Ulyanov Works; and in Ekaterinburg—START, Ural Electromechanical Works, Nevyansk Mechanical Works, Uralkhimmash, Egorshinsky Radio Plant.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

state (hereafter referred to simply as the state) owned all assets. The state de jure claimed all basic property rights of ownership—the right of use, the right to profits from that use, and the right of transfer.[47] Like owners of large properties in capitalist economies, however, the Soviet state had to delegate some of these rights to agents in order to make these assets productive. In the case of large state enterprises, the state (the principal) relied on directors (its agents) to represent its interests in the use of this set of assets.[48]

The Soviet state's ability to monitor the performance and control the behavior of directors weakened over time, as the economy became more complex, the role of the security police declined, and corruption spread.[49] Since principals in the Soviet system were huge centralized bureaucracies of the state, individual apparatchiks within these ministerial labyrinths had neither the knowledge nor the incentive to exercise the state's property rights over individual firms. With state ownership of all enterprises, "the depersonalizing of property becomes extreme."[50] Because profit levels were set arbitrarily and uniformly, the state as owner—or more specifically the bureaucracies of the state as owner—attached little importance to maximizing these profits. Moreover, measurements in the planned economy were extensive, not intensive, creating easy opportunities for shirking and withholding information.[51]

In addition to being unable to monitor agents' activities, the principal also had weak incentive mechanisms for motivating agents to act in the principal's interests. The state did establish production targets, bonus schemes, and the opportunity for advancement within the state

[47] Yoram Barzel, *Economic Analysis of Property Rights* (Cambridge: Cambridge University Press, 1989), 5.

[48] Thrainin Eggertsson, *Economic Behavior and Institutions* (Cambridge: Cambridge University Press, 1990), 40–45; Daniel Levinthal, "A Survey of Agency Models of Organizations," *Journal of Economic Behavior and Organizations* 9 (March 1988), 155.

[49] On agency problems in capitalist economies, see Moe (fn. 23, 1984); Michael Jensen and William Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *Journal of Financial Economics* 3 (October 1976). For an analysis of agency relationships in a socialist economy from a property rights perspective, see Eirik Furubotn and Svetozar Pejovich, "Property Rights and Economic Theory: A Survey of Recent Literature," *Journal of Economic Literature* 10 (December 1972), 1137–62; and Steven Solnick, "Understanding the Soviet Collapse: Institutional Transformation in Periods of Political Chaos" (Paper delivered at the annual meeting of the American Political Science Association, Chicago, September 3, 1992).

[50] Janos Komai, *The Socialist System: The Political Economy of Communism* (Princeton: Princeton University Press, 1992), 75.

[51] For instance, the weight of the truckload of meat was more important than the quality of the cuts. A director of a meat factory could therefore fill his production quota with fatty, bony products while setting aside choice cuts for his own personal use. Directors of meat factories then consumed, bartered, or sold these choice meat cuts. See Vitaly Naishul, *The Supreme and Last Stage of Socialism* (London: Centre for Research into Communist Studies, 1991). On shirking, see Armen Alchian and Harold Demsetz, "Production, Information Cost, and Economic Organization," *American Economic Review* 62 (December 1972).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

hierarchy for successful directors. Nonetheless, throughout the Brezhnev period, actual decisions regarding five-year plans, industrial output targets, and even output goals for individual enterprises were increasingly made at lower and lower levels in the agency chain.[52] As Vitaly Naishul has explained:

> Enterprises (during the Brezhnev era) made requests for resources, which accumulated as they moved up the administrative ladder until they reached an agency authorized to assign production tasks to producers. Then, tasks were distributed among manufacturing enterprises, which responded with new requests for necessary supplies, so that the planning cycle repeated itself over and over again. Brezhnev-era economic planning started *from the bottom up*, not from the top down as under Stalin; its nature was not directive, but iterative or cyclical.[53]

The main instrument of control for the principal in the command economy—the plan—was captured by agents who had superior knowledge about the operations of their individual enterprises.

Directors, as knowledgeable agents for indifferent principals, began to acquire de facto property rights over their entities.[54] First, they assumed rights to consumption. Because the principal could not monitor all production at the enterprise level, directors had opportunities for personal consumption and exploitation of resources and could also control consumption by other enterprise employees.[55]

Second, directors made profits. By hiding revenues or skimming extra production, directors supplemented their personal wealth at the expense of the principal.[56] An extensive black market offered irresistible opportunities; and there were no market inhibitors to shirking.[57] Moreover, under Gorbachev a series of reforms allowing small enterprises and cooperatives further enhanced the directors' opportunities to derive profits from state assets.[58] In accordance with these

[52] Author interview with Nikolai Ryzhkov. According to Ryzhkov, who worked in Gosplan during the last years of the Brezhnev regime, the Politburo took less than forty-five minutes to approve the annual plan for the entire Soviet economy.

[53] Vitali [*sic*] Naishul, "Institutional Development in the USSR," *Cato Journal* 11 (Winter 1992), 490.

[54] Andrei Schleifer and Maxim Boyco, "The Politics of Russian Privatization," in Oliver Blanchard et al., *Post-Communist Reform: Pain and Progress* (Cambridge: MIT Press, 1993), 40–43.

[55] Directors also controlled the construction of and access to social assets of the enterprise, such as vacation homes, kindergartens, housing, sports facilities. These assets often reflected the personal tastes of the enterprise directors.

[56] Ratchet effects on production goals and worker performance standards provided agents with these margins of opportunity. John Litwack, "Ratcheting and Economic Reform in the USSR," *Journal of Comparative Economics* 14 (June 1990).

[57] Gregory Grossman, "The Second Economy in the USSR and Eastern Europe: A Bibliography," *Berkeley-Duke Occasional Papers on the Second Economy in the USSR* 1 (1985).

[58] "Zakon Soyuza Sovetskikh Sotsialiticheskikh Respublik o Kooperatisii v SSSR," *Ekonomicheskaya Gazeta* 24 (June 1988).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

new laws, entrepreneurial directors set up parasitic cooperatives, collectively owned entities, lease agreements, and joint ventures, which became profit centers feeding off the assets of large state enterprises.[59] All profitable transactions with outside contractors, and especially foreign contractors, were channeled through these small enterprises, leaving profits offshore with little or no benefit to the state enterprise as a whole. Directors thus reaped profits from property without bearing the risks or liabilities associated with total ownership.[60] Directors of Soviet enterprises never acquired the third right—the right to transfer property or the right of alienation. But then in the socialist economy, even the principal (the state) could rarely exercise this right.[61] The system, that is, had only one de jure owner, making transfers within the Soviet Union meaningless.

Workers constituted a possible alternative claimant to property rights in the Soviet system in competition with the directors. The paternalistic relationship that evolved between directors and employees within enterprises, however, militated against the development of competing interests between these two social groups. The lack of a labor market, the absence of representative, sectorally based trade unions, and the direct provision of many social amenities (housing, kindergartens, medical treatment, vacation homes) by the enterprise gave the directors tremendous control over workers.[62] Additionally, trade union bureaucrats at the enterprise worked closely with their directors to ensure worker discipline.[63] At the same time, directors and workers were united in their common struggle against the central authorities to lessen their production quotas and shirk on yearly and five-year plans. In this institutional setting workers made no claims to

[59] Leonid Grigoriev, "Ulterior Property Rights and Privatization: Even God Cannot Change the Past," in Anders Aslund, ed., *The Post-Soviet Economy: Soviet and Western Perspectives* (London: Pinter Publishers, 1992), 200.

[60] Overhead and many externalities of these small firms were paid, directly and indirectly, by the state. Government subsidies (i.e., artificially low prices for inputs, extremely low caps for wages, free rent, or negative interests rates on credit lines) were critical to these schemes. In extreme cases, resources transferred from the state to enterprises at low or negligible costs were simply laundered by directors through these cooperatives and joint ventures.

[61] Sales of Soviet assets abroad was the one instance when this right was available to the state.

[62] Joseph Berliner, *Factory and Manager in the USSR* (Cambridge: Harvard University Press, 1957), 230; Kornai (fn. 50), 218–22; Ken Jowitt, *New World Disorder: The Leninist Extinction* (Berkeley: University of California Press, 1992), 289–90; Sheila Puffer, ed., *The Russian Management Revolution* (Armonk, N.Y.: M. E. Sharpe, 1992), 41–51; and John Willerton, *Patronage and Politics in the USSR* (New York: Cambridge University Press, 1992).

[63] Blair Ruble, *Soviet Trade Unions* (Cambridge: Cambridge University Press, 1981). These two groups have worked together in the post-Soviet era regarding issues of property rights. See Michael McFaul, "Russian Centrism and Revolutionary Transitions," *Post-Soviet Affairs* 9 (July-September 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

property rights that competed with their directors. In sum, Soviet institutional arrangements governing property rights had created well-defined interests and had clearly delineated collective identities and social groups. Well before the drafting of Russia's privatization program, directors had effectively privatized many of the property rights of state enterprises. They therefore had real interests to protect against Yeltsin's attempt to reallocate property rights through privatization. Their campaign to defend these interests was buoyed not only by their powerful position vis-à-vis other societal groups regarding issues of property but also by the state's increasing inability to define and implement a countervailing property rights system.

III. The Decline of Soviet and Russian State Power

The Soviet regime consolidated by Stalin was one of the strongest states of the twentieth century. Under Stalin, the Soviet state set the creation of socialism (in one country) as its primary objective and then used coercion, violence, and mass murder to accomplish the task. Stalin's USSR was the paradigmatic totalitarian state.[64]

This state no longer existed in August 1991. While still totalitarian in structure, the Soviet state had atrophied and weakened considerably throughout the Brezhnev years. Gorbachev's reforms further weakened the capacity of the state to define and implement policy goals.[65] Under Gorbachev the main administrative agent of the Soviet system, the Communist Party of the Soviet Union (CPSU) lost its "leading role."[66] No new institution emerged to fill the void. Gorbachev revived the USSR Congress of People's Deputies and then created the Soviet presidency in an attempt to fill the vacuum. By the time of their creation, however, new political entities and movements with alternative claims to sovereignty had already mobilized.[67] Beginning in the fall of 1990, Boris Yeltsin and Democratic Russia directly challenged the sovereign authority of the Soviet regime on Russian territory. It was a revolutionary challenge that gradually undermined the will and power of

[64] On the definition of authoritarian and totalitarian states, see Carl Friedrich and Zbigniew Brzezinski, *Totalitarian Dictatorship and Autocracy* (Cambridge: Harvard University Press, 1961); and Juan Linz, "Totalitarian and Authoritarian Regimes," in Greenstein and Polsby (fn. 6).

[65] Don Van Atta, "The USSR as a 'Weak State': Agrarian Origins of Resistance to Perestroika," *World Politics* 42 (October 1989). For an opposite view, see Jerry Hough, "Gorbachev's Endgame," *World Policy Journal* 7 (Fall 1990).

[66] In February 1990 Article Six of the Soviet Constitution was amended to remove this phrase.

[67] Michael McFaul and Sergei Markov, *The Troubled Birth of Russian Democracy: Parties, Personalities, and Programs* (Stanford, Calif.: Hoover Institution Press, 1993), chap. 1.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the Soviet state.[68] The absolute failure of the August 1991 coup attempt starkly exposed how weak the Soviet state had become.

In the wake of the aborted August putsch, Yeltsin assumed control of a set of Soviet/Russian institutions that had the appearance of a strong state.[69] He seemed invincible—his dramatic stand against the putsch imbued his Russian government with more power and authority than any other institution in the Soviet Union. He used this sudden surge of political power to undermine many key components of the Soviet regime. He banned the CPSU, assumed control of several Soviet institutions and subordinated them to the authority of the Russian state, and then abolished political institutions that competed with existing Russian institutions, including first and foremost the Soviet Congress of People's Deputies and the Soviet presidency. Finally, in December 1991 Yeltsin signed an agreement with his counterparts in Ukraine and Belarus that effectively dismantled the Soviet state.

At the time, these revolutionary changes in the state order met little resistance. Institutions that perhaps could have launched an assault against the Russian president, such as the Soviet army or the KGB, were still in a state of paralysis and disarray after the coup. Social movements opposed to Yeltsin's sweeping actions were dwarfed in size, organization, and popularity by social movements like Democratic Russia, the united front of political parties and associations that supported the Russian president and his neoliberal economic reform plan. Russian political institutions seeking a future in the postcommunist era did not dare to challenge the hero of the coup at this stage. Most importantly, the Russian Congress of People's Deputies granted Yeltsin the power to rule by decree in November 1991, which gave him near-authoritarian de jure power.

At this critical juncture Yeltsin had considerable leeway to construct a new state order.[70] Not constrained by a pacted or negotiated transition, nor obliged to maintain Soviet political institutions, Yeltsin and his team were presented with a window of opportunity. Like many other revolutionary leaders during such transitions, he could have established a harsh authoritarian state—disbanding all political institu-

[68] John Dunlop, *The Rise of Russia and the Fall of the Soviet Empire* (Princeton: Princeton University Press, 1993).

[69] Between August and December 1991, the distinctions between Soviet and Russian state institutions were blurred. When Yeltsin moved into the Kremlin in December, most formal Soviet institutions in operation on Russian territory were either abolished or subsumed by the Russian state.

[70] On the importance of such political transformations for successful revolutionary outcomes, see Theda Skocpol, "Social Revolutions and Mass Military Mobilization," *World Politics* 40 (January 1988).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tions not subordinate to the president's office, suspending individual political liberties, and deploying coercive police units to enforce executive policies.[71] Or he could have moved to consolidate a democratic polity—disbanding old Soviet government institutions, adopting a new constitution codifying the division of power between executive, legislative, and judiciary as well as federal and regional bodies, and calling new elections to stimulate the development of a multiparty system.

Yeltsin did neither. He and his advisers chose not to undertake fundamental political reforms and instead relied on Yeltsin's own personal charisma and authority to sustain the state in carrying out its program of economic transformation. Within the top echelons of the executive branch of government (an institution itself only created in June 1991) Yeltsin did undertake several minor organizational modifications to enhance executive power.[72] And in the regions Yeltsin also created new institutions such as presidential representatives and heads of administration to enhance executive branch autonomy and power. More striking to contemplate, however, are the decisions and actions Yeltsin did not take. He did not push to adopt a new constitution, although a first draft of a new fundamental law produced by the Supreme Soviet Constitutional Commission (chaired by Yeltsin) had been circulated as early as October 1990. Further, the new regime did little to institutionalize its popular support in society: Yeltsin did not establish a political party; nor did he call for elections to stimulate party development. And despite repeated pleas from Democratic Russia, he refused to call new elections in the fall of 1991 and postponed regional elections slated for the winter.[73] Finally, he did not dismantle many Soviet-era governmental institutions, including most importantly, the Supreme Soviet and the Congress of People's Deputies.

Eager to avoid Gorbachev's perceived mistake of fixating on politics to the neglect of economics, Yeltsin's team concentrated on radical economic reform.[74] Consequently, unlike other revolutionaries at the moment of seizing the state, Yeltsin and his new team did not focus on

[71] Skocpol (fn. 6).

[72] Michael McFaul, *Post-Communist Politics: Democratic Prospects in Russia and Eastern Europe* (Washington, D.C.: Center for Strategic and International Studies, 1993), 49–51.

[73] Polling by Democratic Russia indicated that with Yeltsin's backing the organization would win a majority within the Congress of People's Deputies. At the time, Democratic Russia was the only legal party or social movement of national status. Having just organized Yeltsin's electoral victory in June 1991 and then spearheaded the popular resistance to the coup in August, leaders of Democratic Russia were quite certain of their next victory. Author's interviews with Democratic Russia leaders Vladimir Boxer, Victor Dmitriev, Yurii Afanasiev, Ilya Zaslavskii, Mikhail Schneider, and Lev Ponomarev, Moscow, October 1991.

[74] "It's the economy, stupid" was the overriding theme of the new Russian government in the fall of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

transforming the political system. Like their advisers from the West, the Russian team of economic technocrats saw politics and political reform as a nuisance and distraction from the more important task of creating a market economy.[75]

This approach proved costly. Decisions, or the lack thereof, taken by the Yeltsin government after the coup further weakened an already feeble state. Fractures within the Russian state unfolded between different levels of government and also between different branches of the central government. With no constitutional delineation of rights and responsibilities between central and local authorities, regional governments seized the moment of Soviet collapse to grab greater political and economic autonomy. In March 1992 two autonomous republics, Tatarstan and the Chechnya, declared their independence from the Russian Federation. Negotiations over a Federal Treaty dragged on without resolution into the summer of 1993, prompting several Russian oblasts to make their own declarations of independence complete with flags, customs agents, and threats to mint new currencies.[76]

The stalemate between different branches of the central government proved even more dire. Soon after ceding decree power to Yeltsin in November 1991, the Russian Supreme Soviet and the Russian Congress of People's Deputies began a campaign to reassert their authority

---

1991. There were other factors, however, that dissuaded Yeltsin from undertaking political reform. First, Russia emerged from the August 1991 events with few political institutions, good, bad, or otherwise. While imperfect, the Congress and soviets at other levels had at least the appearance of a legislative organ. Sunk political costs in this set of institutions militated against the creation of new ones. Second, Yeltsin and most of the other "democrats" made a strategic decision in 1989 and again in 1990 to participate in elections to these institutions. While disputed at the time within the democratic camp, this strategic decision served to legitimate the soviets as organs of Russia's nascent governmental apparatus. Third, the subsequent participation of Yeltsin and most of his revolutionary entourage in these soviets also bolstered their institutional standing. Yeltsin made his political comeback as a people's deputy. Only two months before the coup Yeltsin was still chairman of the Russian Congress. Fourth, the critical symbolic role played by (in) the Russian Congress of People's Deputies in resisting the coup added yet another barrier to abolishing the institution. The defense of the White House was the defining moment of the resistance to the coup. During the three dramatic days in August, emergency laws passed by the Congress in contradiction to decrees issued by the Soviet Emergency Committee gave Russian citizens, both civilian and military alike, an option for their loyalty. Thus, disbanding the Congress and closing down the White House would undermine the whole coup resistance experience as a nation-defining moment. Finally, at the time the Congress and other soviets did not appear to pose a threat to Yeltsin's autonomy. Given that the Congress voted to give him virtually unlimited powers, Yeltsin assumed that this set of institutions would continue to support him. Uncertainty about what newly elected deputies might do was in fact one of the arguments used against holding new elections. To cement this relationship, Yeltsin urged that his (then) dependable ally, Ruslan Khasbulatov, become chairman.

[75] Gennadii Burbulis, former deputy prime minister and secretary of state (Public lecture, Institute of History, Moscow, February 5, 1993).

[76] Lyudmila Pertsevaya, "Rodina Prezidenta Khochet Stat' Respublikoi," *Moskovskie Novosti*, July 4, 1993, p. 9a.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

as the "highest state organs."[77] Even after Yeltsin's referendum victory in April 1993, the Congress continued to block executive initiatives, constrain ministerial power, and pass laws contradicting Yeltsin's decrees.[78] With no formal or even informal institutions to structure relations between the president and the Congress, the state virtually ceased to function. Yeltsin's dramatic actions in September 1993 reflected the degree to which Russia's government had stopped governing. As Yeltsin explained during his address announcing the dissolution of the Congress of People's Deputies, "In the last few months Russia has been going through a deep crisis of statehood. All political institutions and politicians have been involved in a futile and senseless struggle aimed at destruction. A direct effect of this is the loss of authority of state power as a whole. . . . [I]n these conditions . . . it is impossible to carry out complex reforms." As explained in the following section, this weak state was incapable of restructuring the Soviet property rights system.

IV. The 1992 Privatization Program for Large State Enterprises

As initially defined by Deputy Prime Minister Yegor Gaidar and his team in January 1992, the ultimate objective of this privatization program was to create privately owned profit-seeking corporations that did not depend on government subsidies for survival. The architects of this program believed that if enterprises and enterprise managers had to generate profits to survive, they would rationalize the organization, use, and distribution of economic assets.[79] Privatization accomplishes this more efficient use of resources by internalizing the costs and benefits of production for the individual enterprise.[80] If the benefits do not

[77] The Russian Congress amended the Russian Constitution (the amended Soviet Constitution of 1977) to include this phrase, thereby de jure subordinating the office of the president to the Congress.

[78] On the last major war of laws on privatization between the parliament and president before the disbanding of the Congress, see Igor' Karpenko, "Chek ili Schet," *Izvestiya*, July 17, 1993, p. 4; and Pyotr Mostovoi, "Privatizatsiya v Strane Pod Vliyaniem Reshenii Parlamenta Priobretaet Zavedomo Nomenklaturnyi Kharakter," *Rossiskie Vesti*, August 11, 1993, p. 2.

[79] John Nellis, "Privatization in Reforming Socialist Economies," in Andreja Bohm and Vladimir Kreacic, eds., *Privatization in Eastern Europe: Current Implementation Issues* (Ljublana, Yugoslavia: International Center for Public Enterprises in Developing Countries, 1991), 16; Yegor Gaidar, interview in *Kommersant-Daily*, May 12, 1993, p. 10, quoted in FBIS-SOV-93–091, May 13, 1993, p. 31.

[80] Robert Cooter, "Organization as Property: Economic Analysis of Property Law Applied to Privatization," in Christopher Clague and Gordon Rausser, eds., *The Emergence of Market Economies in Eastern Europe* (Oxford: Basil Blackwell, 1992).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

exceed the costs, privately owned enterprises must take action to redress the imbalance; this may include downsizing, unbundling (the splitting up of large assets), restructuring, or bankruptcy.[81]

With respect to large state enterprises, this objective was to be attained by creating open joint companies owned by outside shareholders.[82] As David Lipton and Jeffrey Sachs argued:

> The shift to a West European ownership structure will require that enterprise governance . . . be placed squarely with a supervisory board (or board of directors) controlled by the owners of the enterprise. In essence, privatization requires first that certain ownership rights, now vested in the enterprises, and particularly in the workers' councils, be eliminated so that property rights to an enterprise can be transferred to the *real* owners.[83]

Outside shareholders were to be created through a mass voucher program.[84]

This program was formulated with little reference to the Soviet historical experience and only marginal input from either societal forces or other branches of the government. Instead, Yeltsin's team worked closely with Western advisers to draft a program informed by neoclassical economic theory and Western (especially American) practice. Moreover, the main authors of the program, Gaidar and Anatolii Chubais, deputy prime minister and chairman of the State Committee for Property (*Goskomimushchestvo*, or GKI) were young economists with no experience in industry. Thus, the state's aims and objectives of privatization were defined with little regard for societal interests.

Not surprisingly, therefore, the publication of this privatization program in early 1992 sparked immediate and heated debate. Lobbies for managers including, first and foremost, the Russian Union of Industrialists and Entrepreneurs (RUIE) and its political affiliate, Civic Union, advocated that property rights of enterprises be transferred only to directors.[85] RUIE and Civic Union leaders argued that Yeltsin's mass privatization program would not redistribute ownership but would simply concentrate ownership in the hands of those who already had money: former black marketeers, the mafia, and foreigners.[86] These "bandits"

[81] Aslund (fn. 40), 80–81.

[82] On the negative consequences of closed joint-stock companies from the government's point of view, see the interview with Deputy Prime Minister Anatolii Chubais (fn. 2).

[83] Lipton and Sachs (fn. 2), 35; emphasis added.

[84] Presidential Decree no. 914, "O Vvedenii v Deistvie Sistemy Privatizatsionnykh Chekov v Rossiiskoi Federatsiya," August 14, 1992, in *Privatizatsiya Gosudarstvennykh i Munitsipal'nykh Predpriyatii* (Moscow: "Republika," 1992), 139–41.

[85] "Grazhdanskii Soyuz i 'Idyet na Vi'," *Nezavisimaya Gazeta*, July 17, 1992, p. 2.

[86] *Grazhdanskii Soyuz*, "Dvenadtsat' Shagov ot Propasti" (Mimeo, 1992), 3; and author interview with Alexander Vladislavlev, cochairman of Civic Union, Moscow, July 1992.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

would acquire vouchers and/or stocks from common Russian citizens, gain controlling interests in Russia's most valuable properties, and then sell the assets of these enterprises for a quick profit without reference to the long-term interests of the individual firm. To avoid such speculation, Civic Union argued that privatization should be left up to individual directors and workers, who knew their local situations best.[87]

The corporatist (rather than pluralist) system of interest mediation in postcommunist Russia endowed this directors' lobby with advantages over other kinds of social groups or aggregate citizen preferences. By contrast, the interests of mass-based groups (for example, consumers' organizations, associations for voucher holders) and individuals are best represented in electoral, parliamentary systems.[88] As already noted, however, pluralist institutions for articulating interests and organizing representation (elections, party systems, and so forth) were not implemented or consolidated during the first two years of Russia's postcommunist polity. Without elections, the voice of individuals and mass-based groups could not compete with associations representing sectoral interests of powerful economic actors.[89] During debate over the privatization law directors and their lobbyists were vocal in Congress and ubiquitous in the corridors of the executive government, while the interests of individual citizens were not represented.

In the absence of competitors, directors' lobbies, supported by alliances with old trade unions in such united fronts as Civic Union and the Russian Assembly of Social Partnership, and empowered by an institutional context propitious to their interest representation, presented a formidable political challenge to Yeltsin's original privatization formula. This increasingly resurgent societal challenge paralleled a decreasing coherence within the Russian state. After the first months of shock therapy, Yeltsin's authority had declined significantly, while the Congress of People's Deputies had reasserted itself as the Russian state's highest body. Because results of the Gaidar reform strategy were not (and could not be) immediate, doubts about the chosen course grew, not only in the Congress but also within Yeltsin's newly consti-

[87] See Point Eight in "Trinadtsat' Punktov Programmy Vol'skogo," *Izvestiya*, September 30, 1992, p. 2; and Alexander Vladislavlev, "Russia Will Not Overcome the Crisis without Civic Accord," *Business World*, no. 34, September 6, 1992, p. 3.

[88] Alan Cawson, "Is There a Corporatist Theory of the State?" in Graeme Duncan, ed., *Democracy and the Capitalist State* (Cambridge: Cambridge University Press, 1989).

[89] On corporatist systems of interest intermediation, see Philippe Schmitter, "The Consolidation of Democracy and Representation of Social Groups," *American Behavioral Scientist* 35 (March–June 1992); idem, "Still the Century of Corporatism?" in Philippe Schmitter and Gerhard Lehmbruch, *Trends toward Corporatist Intermediation* (Beverly Hills, Calif.: Sage, 1979); and Peter Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tuted cabinet.[90] As battles over the privatization program began, Yeltsin and his government decided to avoid confrontation with the Congress and the directors' corps and instead opened their original privatization program to negotiation and concession.[91] As Gaidar remarked retrospectively, "Beginning in May and June it was simply impossible to stand up to the pressure" of the industrial lobby.[92]

The first presidential decree on large-scale industrialization (Decree no. 341) had already granted 25 percent of initially offered shares to workers.[93] Workers were also given the opportunity to purchase an additional 10 percent at a 30 percent discount. Managers were allowed to purchase 5 percent of all shares at full price. All remaining shares were to be dispersed to individual citizens through a mass privatization program.

These concessions were not enough. Most significantly, the 25 percent share to the workers took the form of preferred (nonvoting) stock, making it possible for outsiders to gain a majority position with only 38 percent of the issued shares. Fearing this outcome, the directors' corps pressed for a second option whereby the workers' collective—an entity that includes both workers and managers—would be allowed to purchase a majority equity stake.

The liberals in Yeltsin's government, led most vocally by Anatolii Chubais, strongly opposed this idea.[94] Chubais argued that privatization should serve the interests of all Russian citizens and not just those who worked at large enterprises.[95] Referring to worker management

[90] At the Sixth Congress in April 1992 the Russian Congress pressured the president to reshuffle his cabinet and add three industrialists (Victor Chernomyrdin, Georgii Khizha, and Vladimir Shumeiko) to balance the neoliberal team of Gaidar reformers. At the Seventh Congress in December 1992 the Congress successfully forced Yeltsin to remove his acting prime minister, Yegor Gaidar, and replace him with Victor Chernomyrdin.

[91] See the remarks of Deputy Prime Minister Vladimir Shumeiko, in *Pravda*, October 29, 1992, in FBIS-SOV-92-213, November 3, 1992, p. 36; Alexander Zaichenko, "Governing without Power," *Delovie Lyudi*, 32, April 1993, p. 3; interview with Arkadii Volsky, *Rossiiskaya Gazeta*, October 31, 1992; and remarks by Boris Yeltsin in *Nezavisimaya Gazeta*, November 5, 1992, p. 1. The remaking of the privatization program, then, was not an entirely nonvoluntaristic outcome of the institutional forces left behind from the Soviet era. Rather, the state officials made "politically driven choices" from a set of choices defined by previous institutional arrangements. Outcomes, however, were not determined, because other responses, albeit costly ones, were available. See Stephan Haggard, *Pathways from the Periphery: The Politics of Newly Industrializing States* (Ithaca, N.Y.: Cornell University Press, 1990), 3–4, 34, 45.

[92] Yegor Gaidar, former acting prime minister, in *Kommersant-Daily*, May 12, 1993, p. 10, quoted in FBIS-SOV-93-091, May 13, 1993, p. 30; "Gaidar vs. Gaidar?" *New Times* 17 (April 1993), 18.

[93] On the politics of this initial compromise, see "Kollektivi Khotyat Poluchit' Bezplat'no 25% Sobvennosti. Dlya Nachala," *Izvestiya*, February 8, 1992, p. 1.

[94] See, for instance, the interview with Chubais, "Daravaya Sobstvennost' ne Delaet Chelovek Khozyainom," *Izvestiya*, February 26, 1992, p. 2.

[95] Ibid. See also Chubais's remarks, quoted in ITAR-TASS, February 9, 1993, in FBIS-SOV-93-025, February 9, 1993, p. 22; and the comments by Dmitrii Vasil'ev, GKI deputy chairman, in "Privatizatsiya: Voprosy i Otvety," *Izvestiya*, September 29, 1992, p. 2.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

schemes in Yugoslavia, Chubais also expressed fear that too much insider control of privatized enterprises would hinder efficiency and also dampen public interest in the government's voucher program.[96]

Despite these reservations, Yeltsin's government eventually acceded to the demands of the industrialists.[97] Over one hundred amendments were added to Chubais's original privatization program, including two entirely new options, Option 2 and Option 3. Option 2 allowed workers' collectives to acquire 51 percent ownership, while Option 3 allowed for manager buyouts when effective management assumed responsible control of an ailing enterprise.

To blunt the impact of these amendments, GKI officials incorporated several disincentives into these new options to discourage their selection.[98] Nonetheless, almost two-thirds of the enterprises that submitted plans for privatization in 1992 selected Option 2.[99] As Gaidar candidly lamented, "I cannot say that we are satisfied with the scheme adopted by my government, as two-thirds of privatized enterprises are controlled by workers' groups. This scheme was forced on us as compromise."[100] Moreover, in addition to those enterprises that abided by the options outlined in the amended privatization program, many directors, especially those of very large enterprises, have used old networks, bribes, and their local influence to cut special deals with the

[96] Interview with Chubais (fn. 2). Interfax, June 10, 1992, in FBIS-SOV-92-113, June 11, 1992, p. 51. See also comments by Pyotr Filippov, "Privatizatsiya Mozhet Prinyat' Udelnyi Kharakter," *Rossiiskie Vesti*, January 28, 1993, p. 3; and excerpts from a Democratic Russia press conference on privatization in *Izvestiya*, September 11, 1992, p. 2.

[97] Privatizatsiya, Vtoroe Dykhanie," *Ekonomika i Zhizn'*, no. 24, June 1992, p. 1; Alexander Krasnoselskii (former adviser to Prime Minister Gaidar), "Transformatsiya Gosudarstevennogo Sektora i Kapitalla v Usloviyakh Razvernutikh Privatizatsionnykh Protsessov" (Manuscript, 1993).

[98] First, 25% of the shares were given away to workers in Option 1, and an additional 10% were sold at a reduced rate. Under Option 2 the workers' collective had to purchase all 51% of the shares at full value. For very large enterprises workers' collectives had no possibility of raising this initial capital outlay. The state, moreover, offered no special credit lines to workers collectives seeking to borrow these sums. Second, the nominal value of the enterprise as assigned in Option 1 was multiplied by 1.7 if they opted for Option 2. The GKI also discouraged adoption of this second option by regulating very closely the first, closed stage of subscription for shares. If 51% was not purchased by members of the workers' collectives after the initial period, the enterprise in question was immediately privatized according to Option 1. Finally, GKI regulations required that Option 2 or Option 3 be approved by two-thirds of the workers' collective. If a two-thirds majority was not garnered, the enterprise in question was automatically privatized according to Option 1. GKI officials, including Chubais himself, predicted that most enterprises would privatize according to Option 1. See remarks by Chubais quoted in *Pravda*, June 30, 1992, p. 2, in FBIS-SOV-92-132, July 9, 1992, p. 38.

[99] Of the 46,815 enterprises that had been privatized by the end of 1992, 63.7% had chosen Option 2, while only 34.5% had chosen Option 1, the original privatization design. Less than 2% had chosen Option 3. "Obzor Investii i Privatizatsii," *Kommersant'*, 7, February 15–21, 1993, p. 16; and "Chubais Schitaet Shto Glavnaya Zadacha 1993 Goda—Perekhod k Kachestvennoi Privatizatsii," *Izvestiya-FP*, March 12, 1993).

[100] Quoted in *Le Soir*, June 5–6, 1993, p. 2, in FBIS-SOV-93-108, June 8, 1993, p. 34.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

government allowing special privatization plans (that is, exemptions to the privatization program) very favorable to themselves.[101]

Such high levels of insider ownership obstruct the realization of the original objectives of the privatization program. Given the magnitude of the agency problems at Russian enterprises, even outside owners would find it difficult to control their inherited directors.[102] Without outside owners or at least a minority of shareholders who are outside owners, directors will be even further insulated from the discipline of market forces. They are subject to no real threat of divestment from shareholders. If the directors and workers are also the major shareholders, they have other welfare concerns—first and foremost job security—that take precedence over the goal of maximizing dividend returns on their shares.[103] The threat of outside takeovers is also very weak at enterprises in which insiders own 51 percent or more of all shares. Because boards will be comprised of either existing managers or people with little or no information about the enterprise, disciplinary action by boards of directors against management is also highly unlikely. The labor market for managers—another important disciplinary institution for managers in capitalist economies—is still very weak in Russia. Moreover, as directors assume greater ownership and control of their firm, they will have few incentives to leave it.

[101] Author's interview with Mikhail Kallinin, assistant to the GKI deputy minister for large enterprises, Moscow, April 1993. Examples of such deals include "Leninitz," Saratov Aviation Plant, "Moskvich," "Energiya," "Vympel," and "Sukhoi." See, respectively, "Holding Company Leninetz" (Mimeo, September 1992); John Battilega, "The Saratov Aviation Plant," in Michael McFaul, ed., *Can the Russian Military Industrial Complex Be Privatized? Evaluating the Experiment in Employee Ownership at the Saratov Aviation Plant* (Stanford, Calif.: Center for International Security and Arms Control, 1993); Irina Demchenko, "Moskvich Poluchil Nevidannye L'goty," *Izvestiya*, August 27, 1993, p. 1; "VPK i Preobrazovaniya v Rossii," *Nezavisimaya Gazeta*, May 27, 1993, p. 4; and Boris Rybak, "Russians Advance Privatization Plans," *Aviation Week and Space Technology*, March 29, 1993, p. 60.

[102] Information asymmetries between new boards or shareholders on the one hand and old directors with decades of experience at the enterprise on the other will dramatically impede the rational and efficient use of enterprise resources. If a manager has been working for twenty or thirty years at a given enterprise, it is highly unlikely that this individual will immediately submit to the goals and interests of outside and unknown owners. Moreover, the very notion of incentivized, contractual relationships is alien to Russian economic organization. Contracts for directors designed to limit shirking and encourage profit-seeking behavior simply do not exist yet. See Christian Kirchner, "Privatization Plans of Central and Eastern European States," *Journal of Institutional and Theoretical Economics* 148 (1992), 15.

[103] The recent battle for control of Vladimir Tractor Factory is illustrative. The inside shareholders—the majority of owners in the Option 2 privatization—voted to retain their old director, Anatolii Grishin, who had forty years in the tractor business, over the other candidate, a young, Harvard-trained international banker, Iosif Bakaleinik. While Bakaleinik guaranteed high dividend returns to shareholders, Grishin guaranteed employment. According to Bakaleinik, the old managers coerced workers to support their candidate. One worker was fired for voting for Bakaleinik. Author's interview with Iosif Bakaleinik, Washington, D.C., September 1993. See also Geoff Winestock, "Tractor Plant Picks the Devil It Knows," *Moscow Times*, June 26, 1993, p. 1.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Insider control also impedes two other primary goals of privatization: unbundling and investment. First, unbundling, spin-offs, and restructuring are unlikely to occur when the assets subject to reorganization are not owned or controlled by outside profit seekers. According to a Russian government/World Bank report, "A central feature of the privatization program has been to leave any necessary *restructuring* to new private owners, on the assumption that they will know better than the Government what changes are needed."[104] If no *new* owners are created, however, restructuring will not take place. Management ownership will instead block or delay the downsizing and unbundling of oversized, overemployed enterprises. Second, as the World Bank warned, "Outside investors are likely to be discouraged if there is already an entrenched minority of shareholders."[105] Negligible levels of new investment in Russian enterprises confirm the World Bank's forebodings.[106]

Government Subsidies and Soft Budgets

Another manifestation of the power of the directors' lobby has been massive state transfers to enterprises. The problems associated with insider ownership frustrate but do not altogether block the development of privately owned profit-seeking enterprises. After all, employee-owned companies in developed capitalist countries still earn profits or at least remain solvent. If they do not, they go bankrupt. Fear of bankruptcy disciplines even the most opportunistic directors to maintain positive cash flows. Russian enterprise directors, however, have had another available option for survival: obtain government subsidies. This second option, the soft budget, has allowed enterprise directors to continue to operate without making decisions according to market principles.[107] The combination of little or no pressure from outside shareholders for profits and no hard budget constraints has been a recipe for inefficient enterprise at the microlevel and rampant inflation for the economy as a whole.

The option of subsidies is of course only available if the state acquiesces. A strong state could withstand pressure and enforce a hard bud-

[104] World Bank and the Government of the Russian Federation, *Structural Reform in the Russian Federation: Progress, Prospects, and Priorities for External Support* (Washington, D.C.: World Bank, April 20, 1993), 19.

[105] World Bank, *Russian Economic Reform: Crossing the Threshold of Structural Change* (Washington, D.C.: World Bank, 1992), 94.

[106] See Ludmila Oborotova and Alexander Tsapin, "The Privatization Process in Russia: An Optimistic Color in the Picture of Reform," Occasional Paper (Columbus: Mershon Center, Ohio State University, July 1993), 16–18.

[107] Kornai (fn. 50), 142–45.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

get constraint. A weak state cannot execute such austerity measures. Russia's first postcommunist regime launched its privatization program pledging to withstand demands for credit. Divisions between the Congress and the president, however, once again created opportunities for interest groups representing directors and workers to derail the original resolve of the Yeltsin government. Through the Congress, these interest groups succeeded in returning an ally, Victor Gerashchenko, to head of the Russian Central Bank in spring 1992.[108] Under Gerashchenko, the Central Bank began dispensing massive new lines of credit to ailing enterprises.[109] The bank also approved interenterprise debt swapping, an indirect form of subsidization among enterprises.[110] Along the same lines, the Congress also approved significantly higher budgetary allocations for enterprises than those requested by the Yeltsin government.[111]

The combination of an undisciplined Central Bank and a soft Congress resulted in an explosion of state transfers to ailing enterprises. From January to July 1992 interenterprise debt jumped from 37 billion to 3.2 trillion rubles, an eightyfold increase.[112] By the spring of 1993, state subsidies were estimated to be 22 percent of gross domestic product.[113] Meanwhile, only one Russian enterprise has declared bankruptcy.[114]

This enormous flow of state credits to support ailing companies, coupled with these giant interenterprise arrears, has postponed the introduction of hard budget constraints.[115] The "neoliberal" wing of Yeltsin's government, headed by Deputy Prime Minister and Finance Minister Boris Fyodorov, has continued to warn enterprises that they can no longer rely on state subsidies.[116] Thus far, however, the state has been too weak to make this threat credible. This continued level of

[108] Until Yeltsin's ban of the Congress in September 1993, the bank was under the purview of the Congress, not the president.

[109] Gerashchenko also allowed credit emission from the Central Bank to increase by 40% during his first month in office. See Steven Erlanger, "Russian Aide Says Central Bank Is Trying to Undermine Reforms," *New York Times*, September 15, 1992, p. A6.

[110] See David Ost, "Introduction: Shock Therapy and Its Discontents," *Telos* 92 (Summer 1992), 108; Barry Ickes and Randi Ryterman, "The Interenterprise Arrears Crisis in Russia," *Post-Soviet Affairs* 8 (October–December 1992).

[111] Ivan Zasurskii, "Skol'ko Biudzhetov u Rossii?" *Nezavisimaya Gazeta*, September 2, 1993, p. 1.

[112] Ickes and Ryterman (fn. 110), 331.

[113] World Bank (fn. 3), v.

[114] Boulton (fn. 3).

[115] See the interview with Deputy Prime Minister Boris Fyodorov, in *Kommersant-DAILY*, April 28, 1993, p. 3.

[116] Ministry of Economics of the Russian Federation, *O Kriteriyakh Otsenki Programm, Otraslei i Predpriyatii, Nuzhdayushchikhsya v Gosudarstvennoi Podderzhki*, Raspolozhenie Soveta Ministrov-Prvitel'stva Rossiiskoi Federatsii, no. 519 (April 1, 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

state subsidy seriously undermines the very idea of private property. The regime's inability to withstand short-term demands from enterprise directors undermines the broader, long-term goal of creating and sustaining a capitalist market economy.[117]

The Lack of Market-Supporting Institutions

The goals of the original privatization program have been further impeded by the state's inability and/or unwillingness to create the new institutions necessary to support a market economy. The state's failure to create these institutions has in part been the consequence of its neoliberal philosophy. Because of their militant belief in the power of the invisible hand, Gaidar's team did not envision a role for the state in creating market-supporting institutions. Rather, these institutions were to form spontaneously. In Russia, however, this ideological perspective proved to be fundamentally flawed. Choked by the maze of nonmarket institutions still in place from the Soviet era, Russia needs a state policy that would create and nurture market-supporting institutions. The lack of attention to the role of the state in this process, coupled with the weakness of the state more generally, has resulted in a dearth of several key institutions critical for free enterprise.

The state has also institutionalized a legal system to protect property rights, decrease transaction costs, enforce contracts, and ensure competition.[118] However, the Russian state has devoted few resources to developing a court system capable of defending even investors or property owners, let alone consumers or workers. Contracts must be totally self-enforcing to work, because the state cannot enforce them. In the corporate legal context, laws on disclosure do not exist, general accounting procedures have not been codified, procedures for shareholder and proxy voting are ambiguous, and institutions governing the payment of dividends have not been established. Consequently, stockholders have little access to information about enterprises in which they have invested.

Some market-supporting institutions, such as banks, commodities exchanges, and even stock markets, have, however, begun to emerge spontaneously in Russia. But without a state capable of regulating

[117] Ronald McKinnon, "Financial Control in the Transition from Classical Socialism to a Market Economy," *Journal of Economic Perspectives* 5 (1991); Barry Weingast, "The Economic Role of Political Institutions" (Manuscript, Hoover Institution, 1993); Przeworski (fn. 26).

[118] European Bank for Reconstruction and Development, *Privatisation, Restructuring, and Defence Conversion*, Discussion Paper 1 (London: EBRD, 1993), 4.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

these institutions, it is not certain that the institutions taking root will foster the development of privately owned profit-seeking firms. Unregulated stock markets may lead to ownership dominated by bankers and enterprise directors, not entrepreneurs. Within Russia's nascent stock markets, insider trading is the norm, not the exception. Unregulated commodity exchanges have already created incentives for producers of raw materials to export rather than sell domestically. While perhaps a logical market response to the current pricing system, such transfers out of the country arrest already declining domestic production. The Russian state has also not developed a strategy for demonopolizing the economy—antimonopoly commissions have been created at all levels of government, but they have little authority.[119]

Perhaps most importantly, the Russian state has not created a system of social security. It has not established an effective retirement system, a welfare agency, a plan for job training, or unemployment compensation.[120] Without such a social safety net, the Russian labor market has little fluidity.[121] Workers still rely on their enterprise directors to provide all social services. Enterprise directors in turn can demand state subsidies to cover their wage bill, housing costs, retirement benefits, and so on. In effect, then, state transfers for wage bills in nonproductive enterprises serve as unemployment compensation from the state. If these monies were transferred through an institution independent of the enterprises, however, bankruptcies would be less socially explosive and unemployed workers might be encouraged to find new employment.[122]

All developed capitalist economies have a complex network of institutions that supports and facilitates market functions. The invisible hand is aided by visible institutions. Guided by neoliberal philosophies about the market, Russia's first postcommunist government assumed that these supporting institutions would emerge spontaneously. They have not. As a result, the absence of market-supporting institutions has added yet another impediment to the development of profit-maximizing privately owned firms.

[119] Author interview with Vladimir Boxer, deputy head of the Moscow Anti-Monopoly Commission, December 1992.

[120] For an assessment, see Nicholas Barr, *Income Transfers and the Social Safety Net in Russia* (Washington, D.C.: World Bank, 1992).

[121] Adam Przeworski, "Economic Reforms, Public Opinion, and Political Institutions: Poland in the Eastern European Perspective," in Pereira, Maravall, and Przeworski (fn. 42).

[122] Bankruptcies, too, would of course release poorly utilized capital assets, and first and foremost real estate, on to the market. The rational allocation of these newly released assets would in turn create new jobs and thereby help alleviate the unemployment created by the initial bankruptcies.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

V. Authoritarian and Democratic Counterfactuals

The Russian state launched its economic reform program with a clear blueprint for how to turn state-owned enterprises into market-driven privately owned firms. However, the hodgepodge of institutions that constituted Russia's first postcommunist state—a hybrid of new institutions like the president's office and old institutions like the Congress of People's Deputies—had virtually no capacity to dismantle the existing set of institutional arrangements governing property rights. The emergence of a corporatist system of interest intermediation in parallel with, and in part as a consequence of, this weak and divided state provided the opportunity for mobilized and articulated interest groups like the directors' corps to capture control of the Congress and thereby amend and influence implementation of state policy regarding privatization and private property rights.

Would a different configuration of Russian state institutions have led to a different outcome concerning the creation of private property rights? Two counterfactuals are worth exploring—an authoritarian state and a democratic state.

At the beginning of Russia's reform process, many called for an authoritarian regime, believing that such regimes are better able than are other kinds of polities to carry out economic reforms.[123] The economic miracles of South Korea, Taiwan, Chile, and China are often cited as examples of how to sequence political and economic reform; economic reform and growth first, democratization second. The revolutionary changes in France's economic structure after 1789, in Russia's after 1917, or in China's after 1949 suggest that violent authoritarian regimes are capable of achieving radical economic transformation.

Had Boris Yeltsin dissolved the Congress of People's Deputies and instituted an authoritarian regime, the politics of privatization would have been different.[124] Without question, directors of state enterprises would still have tried to defend their interests by lobbying or threatening such an authoritarian state. Their ability to influence Gaidar and

[123] See the essays by Igor Klyamkin and Adrannik Migranyan, in *Sotsializm i Demokratiya: Diskussionaya Tribuna* 2 (Moscow: Institut Ekonomiki Mirovoi Sotsialisticheskoi Sistemy, 1990). See works cited in fn. 16. The evidence for such a claim is inconclusive. Despite Yeltsin's recent decisive actions against his opponents, the overall weakness of the Russian state still suggests that authoritarianism may no longer be a viable option. The last authoritarian attempt to restore state power—the August 1991 putsch—resulted in the dissolution of the Soviet Union. A similar move by Russian central authorities could precipitate the collapse of the Russian Federation.

[124] On the importance of counterfactuals for single-case studies, see James D. Fearon, "Counterfactuals and Hypothesis Testing in Political Science," *World Politics* 43 (January 1991).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

his team, however, would have been much more difficult than gaining support in the Congress of Peoples' Deputies, a body in which directors themselves constituted a sizable minority. Option 2 almost certainly would *not* have been incorporated in the 1992 privatization program, meaning that outsider investments would have had greater opportunities to take majority equity positions in privatizing enterprises. While agency problems would still have been acute, the demarcation between owner and employee would have been more clearly defined. Perhaps even more importantly, an authoritarian regime would have subordinated the Russian Central Bank to the Gaidar team of neoliberal reformers. Under these monetarists, it is unlikely that the Bank would have become the main provider of cheap credit to large enterprises.[125] Faced with a less compromising set of state institutions, these directors might have resorted to extreme measures, such as strikes, riots, and even armed insurrection against the state. However, they might also have accepted the new rules and begun behaving like profit seekers.[126]

The authoritarian option, however, would also have had several deleterious consequences for the creation of private property rights. Insulated from all societal pressures or control, leaders of an authoritarian state would have had few incentives to give up property rights to private owners. Instead, an authoritarian state might easily have returned to predatory rent-seeking behavior. Only the most ideologically pure would have been able to use this regime to divest the state of its revenue-generating assets.[127] Finally, even if an authoritarian state succeeded in privatizing and/or creating private property rights, there is no guarantee that these rights could be protected, since a state strong enough to establish property rights is also strong enough to take them away.[128]

Democratization, too, could have been an alternative path to enhancing Russia's state capacities—however counterintuitive this may seem. When divisions of power between different branches of government and different levels of government are institutionalized, the state becomes more effective. States in which the rules of the game are clearly delineated can maintain high levels of capacity even in the face

[125] In the Soviet system the Central Bank had not performed this role but only took on this function when enterprises had no other institution from which to receive state support.

[126] This scenario, in fact, is one that might eventually play itself out in Russia.

[127] On why such behavior would be irrational for regime rulers, see Margaret Levi, *Of Rule and Revenue* (Berkeley: University of California Press, 1988), chap. 11.

[128] Weingast (fn. 117).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of deep ideological differences between members of the polity.[129] At the same time, unlike authoritarian regimes, states with institutionalized divisions of power are less able to make predatory interventions in the economy.[130] From this perspective, then, the early adoption of a new Russian constitution—an act of democratization, not authoritarianism—may have been a critical step toward economic reform.

The Russian state's ability to carry out radical economic transformation may also have been enhanced by a more pluralist system of interest intermediation. In the absence of elections, special-interest groups representing the directors' corps had greater access to and influence over the state than did representatives of other interests. They especially were effective at influencing and controlling the Russian Congress of People's Deputies. Deputies to the Congress were elected in 1990, before political parties existed, before the Soviet Union had collapsed, and well before economic reform had begun. They therefore represented neither the electorate (as demonstrated most conclusively in the April 1993 referendum) nor the new social and economic groups that emerged in postcommunist Russia (that is, entrepreneurial associations, independent trade unions, coalitions of directors of privatized enterprises, and so forth).[131] Not surprisingly, this Congress emerged as one of the chief obstacles to revolutionary economic transformation.

Had Yeltsin actively pushed to democratize the Russian polity immediately after August 1991, the nature of the societal pressures within the polity might have been very different. Had there been elections for the Congress of People's Deputies in 1991, for instance, resistance to Yeltsin's privatization program might have been much weaker. In the fall of 1991 Democratic Russia was the only legal nationwide political organization. Given Yeltsin's overwhelming popularity at the time, Democratic Russia could have won a majority of seats in the Russian parliament. A parliament controlled by Yeltsin supporters

[129] This usually means that the procedures for decision making and execution are clearly delineated. For instance, the vote on U.S. military action against Iraq in the United States Senate was split almost evenly. Once the vote passed by its narrow margin, the American state implemented the policy decision coherently and effectively.

[130] Weingast (fn. 117).

[131] As privatization, whether insider or outsider, proceeds, the directors' corps will have increasingly different interests as a result of the kind of assets they inherit. For instance, directors who become CEOs of potentially profitable enterprises will want to decrease state subsidies—the engine of inflation in the Russian economy—while those at unprofitable enterprises will have an interest in sustaining them. Compare, for instance, the platform of the Association of Privatized and Private Enterprises, a lobby organization chaired by Yegor Gaidar (*Materialy Uchreditel'nogo S'ezda*, April 2–3, 1993), with Civic Union's program (*Dokumenti Foruma Obshchestvennikh Sil*, Moscow, June 21, 1992).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

would have been more sympathetic to the original privatization program and less willing to provide credits to state enterprises.

The relationship between democratization and economic reform may be more complementary than is often assumed.[132] In revolutionary transitions, the people may be an ally for the state in its attempt to challenge entrenched interest groups formed under the ancien régime. In the Russian case the majority of citizens—unlike the directors' corps—had little to lose from the breakdown of the old Soviet order.[133] A political system that amplifies the role of the masses and squelches the voice of the old elite in state policy-making and policy implementation might prove more capable of undertaking radical economic transformation than even an authoritarian regime. More generally, a democratically elected state has greater legitimacy and authority than does an authoritarian regime to carry out painful economic reforms.[134] In other postcommunist transitions, it does appear that those regimes which initiated comprehensive democratic reforms early on (Poland, Hungary, Czech Republic) were more successful in undertaking real economic transformation than were those countries that did not try to or that had less success at consolidating a democratic polity (Romania, Bulgaria, Ukraine, Uzbekistan).

While the actual outcome regarding the creation of private property rights in either the authoritarian or the democratic scenario is difficult to imagine conclusively, both counterfactuals suggest that alternative configurations of state institutions would have led to a different evolu-

[132] The correlation between democracy and capitalism is well established. The process for creating and consolidating both, however, is not. On the well-established correlation, see Seymour Martin Lipset, *Political Man: The Social Bases of Politics* (Garden City, N.Y.: Doubleday, 1960); and the review of this literature by Larry Diamond, "Democracy Reconsidered," *American Behavioral Scientist* 35 (March–June 1992).

[133] Even two years into what has been a very painful transition period, the majority of Russian citizens still support the transformation of the Soviet command economy. In November 1993 a nationwide poll of over two thousand people indicated that 45.9% of those surveyed thought a transition to a market economy was a correct course for Russia, while only 27.4% thought the opposite; Tsentr Sotsioekspress, Institut Sotsiologii Rossiiskaya Akademiya Nauk, *Zerkalo Mnenii* (Moscow: Tsentr Sotsioekspress, 1993), 6. While voters in December 1993 were undoubtedly expressing their dissatisfaction with the existing government, the outcome of these elections should not be interpreted as a rejection of market reforms altogether. After all, no electoral bloc running in the December elections advocated a return to the Soviet system, whereas the biggest winner, Vladimir Zhirinovsky's Liberal Democratic Party, hardly mentioned economic issues during the campaign. Significantly, Civic Union, the electoral bloc most closely associated with the directors' corps, which had dominated the Congress of People's Deputies for the previous two years, received only 1.8% of the popular vote. For an analysis of the December 1993 elections, see the symposium in the *Journal of Democracy* 5 (April 1994).

[134] Pereira, Maravall, and Przeworski (fn. 42), 212; Dietrich Rueschemeyer, Evelyne Huber Stephens, and John Stephens, *Capitalist Development and Democracy* (Chicago: University of Chicago Press, 1992), 296.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tion of property rights in Russia. Even though this is only one case study, the outcome of the politics of privatization suggests that decisions or nondecisions made about the institutional design of the Russian state at its genesis in 1991 affected the subsequent path of economic transformation.[135]

The drama of Russia's attempt at socioeconomic transformation is certainly not over. These counterfactuals suggest that renewed state resolve to define policies to create free enterprise, coupled with new state capacities to carry out such a program, could eventually lead to the creation of a new system of private property rights in Russia. Although it would be very difficult if not impossible to wrest control of privatizing enterprises from insider owners at this stage, a newly united and determined Russian state could enforce hard budget constraints for these enterprises. By eliminating or strategically allocating credits, the state could still compel enterprises to search for markets and profits, irrespective of who owns the enterprise. A policy that enforces hard budget constraints without a social safety net will be politically explosive. Directors and workers who are also shareholders in bankrupt enterprises will lose twice, creating a very angry and potentially dangerous social force that could challenge the state. To alleviate these social pressures caused by the dislocation of restructuring and rationalizing of assets, the Russian state will have to devote increased resources to developing a social welfare system that includes, among other things, unemployment benefits and job retraining. Only through the establishment of this set of market-supporting institutions can the demolition of the old Soviet enterprise system and the creation of new efficient firms be accomplished.[136] A renewed program for creating private property rights must consider not only the reorganization of old assets but also conditions for the creation of new assets. Facilitating market entry for new firms may be as important for the development of private property rights as the dismantling of those institutional arrangement that preserve old Soviet enterprises.

Only a Russian state with enhanced capacity to act against the interests of entrenched social groups from the Soviet regime will be able to implement the policies just described.[137] Without a strong state, the

[135] Krasner (fn. 25), 242; Putnam (fn. 25), 8; Kathleen Thelen and Sven Steinmo, "Historical Institutionalism in Comparative Politics," in Steinmo, Thelen, and Longstreth (fn. 23).

[136] Barr (fn. 120).

[137] Elections in December 1993 may have marked a positive step toward this end. While the composition of the State Duma, the new parliament, is as conservative as the Congress of People's Deputies after this election, Russian voters also ratified a new constitution. So far, this new fundamental law has facilitated, regulated, and normalized relations between the president, the govern-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

creation of private property rights will continue to be altered or delayed.

Conclusion

In reflecting on the processes of change in Eastern Europe, Claus Offe noted that "this upheaval is a revolution without a historical model and a revolution without a revolutionary theory. Its most conspicuous distinguishing characteristic is indeed the lack of any theoretical assumptions and normative arguments."[138] This article has attempted to begin to fill this theoretical vacuum about revolutionary change in the former communist world. It has done so not by inventing a new revolutionary theory, but rather by positing a causal relationship between state power and revolutionary economic transformation, and then testing this hypothesis by tracing the relationship between Russian state institutions and the creation of private property rights. By highlighting the importance of institutions in the formation and organization of socioeconomic systems, this article has identified the kinds of critical changes needed to induce revolutionary economic transformation. By identifying the state as the primary instrument for destroying old institutions and creating (or providing the environment for) new institutions, this article has presented a causal explanation for revolutionary outcomes that stands in contrast to both Marxist and liberal theories of society-led change and that is at odds with the orthodox neoliberal approach to reform in transition economies.

ment, and the legislature. Perhaps most importantly, the new constitution has helped to prevent political intervention concerning economic issues as the new constitutional configuration of the Russian state delegates to the Russian parliament a consultative role, rather than a primary responsibility for reforming and managing the economy. In the long run, an antireformist or fascist president could use these new rules for very different ends. In the short run, however, this political reform has served to further economic reform. While still too early to assess the implications of this new institutional configuration for economic reform, this new period will provide an important contrasting case to the period examined in this article.

[138] Offe (fn. 43), 866–67.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

SOCIAL RIGHTS ADVOCACY AND STATE BUILDING
T. H. Marshall in the Hands of Social Reformers

By JYTTE KLAUSEN

INTRODUCTION

POLITICAL events, policy innovation, and academic debates have converged to produce rising interest in citizenship and its implications. In Europe the declaration of a European Union and citizenship of this union has raised questions about the possibility of "add-on" citizenship.[1] In the United States the Clinton administration has engaged in social policy innovation based upon the claim that health care coverage represents a "right of citizenship."[2] At the same time feminist scholars have suggested that citizenship ought to be differentiated by social group and that states should grant preferential treatment to women (and other disadvantaged groups).[3] In all three contexts the concept of "social citizenship" has played a prominent role, suggesting that citizenship implies an obligation on the part of the state to adopt redistributive policies. These events and arguments raise a more general question about the nature of government's obligations to individu-

[1] On EU citizenship, see Elizabeth Meehan, "Citizenship and the European Community," *Political Quarterly* 64 (April 1993). On European states and inclusion of immigrants, see Yasmin Nuhoglu Soysal, *Limits of Citizenship: Post-National Citizenship in the Contemporary Nation-State System* (Chicago: University of Chicago Press, forthcoming); Tomas Hammar, *Democracy and the Nation-State: Aliens, Denizens and Citizens in a World of International Migration* (Aldershot, England: Gower, 1990); Rogers Brubaker, *Citizenship and Nationhood in France and Germany* (Cambridge: Cambridge University Press, 1992).

[2] Paul Starr, "The Framework of Health Care Reform," *New England Journal of Medicine* 329 (November 25, 1993).

[3] Nancy Fraser and Linda Gordon, "Contract versus Charity: Why Is There No Social Citizenship in the United States?" *Socialist Review* 22 (July–September 1992); Ann Shola Orloff, "Gender and the Social Rights of Citizenship," *American Journal of Sociology* 58 (June 1993); Wendy Sarvasy, "Beyond the Difference versus Equality Policy Debate: Postsuffrage Feminism, Citizenship, and the Quest for a Feminist Welfare State," *Signs* 17 (Winter 1992).

World Politics 47 (January 1995), 244–67

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

als and groups and about the capacity of governments to shape inclusive policies responsive to new group claims.

Social citizenship is widely regarded as a tool for social inclusion.[4] It is supposed to lead to universalism in program design, legitimize welfare spending, and obliterate any stigma to receiving public income subsidy.[5] It is associated with rights, and the generous Scandinavian welfare states are usually cited as real-life examples of the benefits of social citizenship.[6] This raises both a theoretical and an empirical problem. Under what circumstances, if ever, has social citizenship been used to produce the kind of desirable policies suggested by the current debate? The theoretical question concerns the relationship between citizenship and income redistribution. It is argued here that it is erroneous to regard social citizenship as the equivalent of civil and political rights and that instead it is necessary to distinguish between rights and redistribution. Social rights imply redistribution of income between social groups. Civil rights and suffrage, by contrast, represent indivisible and nontransferable rights belonging to individuals. In the case of the latter, one person's claim to a particular right does not significantly affect the value of the next person's claim. This is not the case with redistributive policy: because social rights are premised upon the fiscal capacities of the state, social citizenship cannot create an inalienable right to support from the state community. Consequently, social citizenship ought to be considered simply a particular paradigm of distributional politics in advanced industrial welfare states. In this context it has proved to be a suggestive metaphor for political mobilization aimed at putting together broadly based coalitions on behalf of welfare state expansion.

Redistributive policies make claims not only against the state but also against other taxpayers. By framing social rights as citizenship rights,

[4] William Julius Wilson, "Race-Neutral Programs and the Democratic Coalition," *American Prospect* (Spring 1990); and idem, *The Truly Disadvantaged: The Inner City, the Underclass, and Public Policy* (Chicago: University of Chicago Press, 1987); Helene Slessarev, "Racial Tension and Institutional Support: Social Programs during a Period of Retrenchment," in Margaret Weir et al., eds., *The Politics of Social Policy in the United States* (Princeton: Princeton University Press, 1988).

[5] A brief note on terminology is warranted: "universalism" has been heralded as the cornerstone of the Scandinavian model by both Scandinavians and others; see Robert Erikson et al., eds., *The Scandinavian Model: Welfare States and Welfare Research* (Armonk, N.Y.: M. E. Sharpe, 1987), vii. It is, however, not the same as "citizenship"; nor does "universalism" imply "social right." Universalism simply implies the absence of means testing. Insurance-type programs, however, are universal in this sense; that is, claims are restricted to participants.

[6] From a Scandinavian perspective, this is curious, because Scandinavians have serious doubts about their welfare states. They have come increasingly to consider them both overly expensive and at times less fair than they are supposed to be. Assar Lindbeck, "Overshooting, Reform and Retreat of the Welfare State" (Tingenbergen Lecture delivered at de Nederlandsche Bank, Amsterdam, October 1, 1993); Jan-Erik Lane, "The Twilight of the Nordic Model," *Political Studies* 41 (June 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

reformers may achieve depoliticization and sidestep thorny issues regarding electoral consent, as they strive instead for prepolitical legitimacy, but there is an inherent danger in doing so. I believe it is wiser to avoid conflating redistributive policy with citizenship rights. Because there are important trade-offs embedded in the balancing of various rights, conceptions of citizenship that imply a high level of obligation on the part of states toward citizens—which I refer to as "thick" meanings of citizenship—pose obstacles to the creation of a society welcoming of newcomers.[7] The primary reason is that generous welfare states must be acutely concerned with policing entitlement. It can in fact be argued that the Scandinavian welfare states are as much examples of closure and exclusion as they are examples of welfare state inclusion. Which feature predominates depends upon one's vantage point, particularly whether one is a citizen or an alien.

I begin by discussing the link between social citizenship and welfare state expansion. I then present my criticism of T. H. Marshall and his influence on the conceptualization of social citizenship. Next, I examine the role of the concept in shaping Scandinavian welfare state expansion at some critical moments. Finally, I return to a discussion of entitlement policing and social citizenship.

Social Citizenship and Welfare State Expansion

T. H. Marshall is by general consensus credited with authorship of the concept of social citizenship. He developed the concept in a 1949 essay originally given as a speech in honor of Alfred Marshall.[8] Marshall was inspired by the 1943 Beveridge Plan (Social Insurance and Allied Services) and by consequent British social reforms, including the 1948 National Health Service bill. In 1942–43 Sir William H. Beveridge had argued strongly for the creation of a "national minimum of subsistence" as a "policy of freedom from want."[9] Already before World War

[7] The Clinton health care reform proposal is a case in point. The collateral of making health care coverage a right of citizenship is that noncitizens do not qualify. See *Wall Street Journal*, April 6, 1993, p. 1. A letter from California governor Pete Wilson to President Clinton asking that illegal immigrants be excluded provoked a second flurry of stories. See "Seeking to Deny Citizenship to Some," *New York Times*, August 11, 1993, p. 10; "Health Card Would Bar Illegal Immigrants," *New York Times*, August 16, 1993, p. 15; Martin Tolchin, "White House Seeks a Medical ID Card," *New York Times*, August 28, 1993, p. 7.

[8] T. H. Marshall, *Citizenship and Social Class and Other Essays* (London: Cambridge University Press, 1950). Reissued as Thomas Humphrey, ed., *Citizenship and Social Class* (London: Pluto Press, 1992). Also in S. M. Lipset, ed., *Class, Citizenship, and Social Development: Essays by T. H. Marshall* (Garden City, N.Y.: Anchor Books, 1965).

[9] Sir William H. Beveridge, *The Pillars of Security and Other War-Time Essays and Addresses* (New York: Macmillan, 1943), 148. See also Great Britain, Inter-Departmental Committee on Social In-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

II, however, the Swedish Social Democrats had begun using the citizenship metaphor in their campaigns to expand the welfare state. As early as in the 1920s they were looking to replace the Marxian language of the class struggle—which proved uncompelling in electoral reform politics—and came up with concepts strikingly similar to those suggested by Marshall. By the 1930s Per Albin Hansson, the party leader, routinely described the party's goals as the creation of a Swedish *Folkhemmet*, or people's home.[10] In a slightly confusing twist, Marshall's essay has retrospectively been indelibly linked to the analysis of Scandinavian welfare statism through the comparative analyses advanced by Walter Korpi and Gøsta Esping-Andersen.[11] Ironically, had present theoretical debates relied more on the real-life uses of social citizenship, such as the Swedish case, rather than on Marshall's essay, some of the confusion that mars today's debates might have been avoided.

Feminist uses of social citizenship owe a debt to another Scandinavia who has reinterpreted Marshall's famous essay—the Norwegian sociologist Helga Hernes.[12] Ann Shola Orloff has embraced Hernes's theory of "state-feminism" to argue that citizenship implies an obligation on the part of the state to give women the capacity "to form and maintain autonomous households."[13] Orloff suggests that the concept be applied in systematic comparative analysis.[14] Other writers have similarly embraced an expansive conception of citizenship that implies particular rights for women.[15] A long-standing conflict between liberal and more statist interpretations of citizenship reverberates throughout

surance and Allies Services, *Social Insurance and Allied Services: Report by Sir William H. Beveridge* (New York: Macmillan, 1942). For a brief description of the man and his work, see Tony Lynes, "William Beveridge," in Paul Barker, ed., *Founders of the Welfare State* (London: Heineman, 1984).

[10] Tingsten cites one of the leaders in the party's youth movement who in 1929 wrote: "Where the concept of class seems limited or isolated, there the concept of people opens the way to cooperation." Tingsten, *The Swedish Social Democrats: Their Ideological Development* (Totowa, N.J.: Bedminster Press, 1973), 279.

[11] Korpi, "Power, Politics, and State Autonomy in the Development of Social Citizenship: Social Rights during Sickness in Eighteen OECD Countries since 1930," *American Sociological Review* 54 (June 1989); Esping-Andersen, *Politics against Markets: The Social Democratic Road to Power* (Princeton: Princeton University Press, 1985), 145. The argument was further pursued in idem, *The Three Worlds of Welfare Capitalism* (Princeton: Princeton University Press, 1990).

[12] Helga Maria Hernes, *Welfare State and Woman Power: Essays in State Feminism* (Oslo: Norwegian University Press, 1987); idem, "Scandinavian Citizenship," *Acta Sociologica* 31 (August 1988).

[13] Orloff (fn. 3) goes further, arguing that "true social rights" thus imply both the right of women to "leave oppressive situations" (i.e., marriages) and "women's political participation and power" (p. 322).

[14] Ibid.

[15] Carol Pateman, "The Patriarchal Welfare State," in Amy Gutmann, ed., *Democracy and the Welfare State* (Princeton: Princeton University Press, 1988); Chantal Mouffe, "Feminism, Citizenship, and Radical Democratic Politics," in Judith Butler and Joan W. Scott, eds., *Feminists Theorize the Political* (New York: Routledge, 1992); Fraser and Gordon (fn. 3). See also the debate between Linda Gordon and Theda Skocpol, *Contention* 2 (Spring 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the discussion.[16] Does equality imply an obligation on the part of governments to make citizens equals or just to treat them as equals? And if a group can make a claim for special redress by means of citizenship, how can its members claim equality at the same time? Can women be the same as men, yet simultaneously be treated differently by the state? The implication of the arguments for group citizenship rights is that citizenship signifies different things in different realms; it may be universal in the realms of civil and political rights and differential in the realm of social rights. Chantal Mouffe, for example, asserts that citizenship can recognize both "the specificity of womanhood and the common humanity of men and women." This leaves her free to argue in favor of nonuniversalistic conceptions of citizenship without being vulnerable to accusations of holding to a double standard.[17]

Closer inspection reveals, however, that neither Marshall nor the model Scandinavian welfare states support the assumption that social citizenship implies the granting of social rights with no strings attached to certain groups. It is correct that the Scandinavian welfare states often made explicit use of the concepts of universalism, citizenship, solidarity, and indeed of Marshall himself. Yet even prior to the last decade of recession and retrenchment, the world's most comprehensive welfare states did not live up to the expectations raised by advocates of social citizenship in terms of inclusiveness and group rights. Scandinavian welfare states are fraught with entitlement policing based upon more or less normative prerequisites; these range from criteria for eligibility—residence, employment, or means tests—to norms for various types of desirable behavior. In the latter category are labor-market availability, demonstrated willingness to work, union membership, and occasionally abstinence from drug or alcohol abuse. The first requirement for any kind of citizenship is belonging to the state community. This may seem like an innocuous criterion but, particularly in a world with open and uncertain borders, it is not.[18] Historically and

[16] Robert Nisbet, "Citizenship: Two Traditions," *Social Research* 41, no. 4 (1974).

[17] Mouffe (fn. 15), 375. Citizenship may be the basic principle of modern democracy, but she adds that "we must also recognize that there can be as many forms of citizenship as there are interpretations of those principles" (p. 378).

[18] Basing his remarks upon the pioneering work of Gunnar Myrdal, *Beyond the Welfare State*, 2d ed. (New York: Bantam Books, 1967), Abram de Swaan writes: "In every country, welfare is a national concern, circumscribed by the nation's borders and reserved for its residents alone." See de Swaan, "Perspectives for Transnational Social Policy," *Government and Opposition* 27 (Winter 1992), 31. The United States may be the only exception to this rule. In Sweden, as elsewhere in Scandinavia, refugees and immigrants are covered by special legislation and administrative authority, called *Utlänninglagen* (the foreigner act) and *Utlänningförordningen* (the foreigner regulation) (both revised in 1989), and not *Socialtjänstlagen* (social service act), which denies immigrants and refugees certain civil, political, and social rights. They may be detained by the state until their identity has been established, must reside in housing assigned by the government if dependent upon public support, etc.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

conceptually, citizenship has always implied the exclusion of those who do not belong to the protective community. Marshall, too, was explicit about the communitarian obligations implied by his conceptualization of citizenship.

Citizenship defines the relationship between individuals and the state. The history of citizenship is intimately linked to that of state formation. Originally denoting residence within the protective walls of cities, citizenship defines a community by establishing who may reside within the boundaries and who may not.[19] Borders are changeable, as are the definitions and standards of citizenship. Wars, migration, and annexation are important causes of change. E. J. Hobsbawm (born 1917) has estimated that a person of his age living in certain areas of Eastern Europe may have changed citizenship four or five times without ever having moved.[20] The extension of suffrage to the nonpropertied classes and to women is an example of change in definition. Convicts, paupers, and soldiers were once routinely denied all or some of the civil and political rights accorded freemen. Rogers Brubaker describes how the process of state building affects the norms of citizenship.[21] For reasons of statehood, it means different things to be American, French, or German, and the criteria for obtaining citizenship of all these countries vary.

Citizenship has also come to encompass an increasing range of rights and obligations. The welfare state and social citizenship challenge neither accounting rules nor borders, but they have changed the standard of citizenship. The welfare state has in effect intensified the importance of belonging to these communities. Social citizenship increases the level of obligation on the part of states toward citizens by committing governments to maintaining a socially accepted minimum standard of living for all members of the community. Consider Marshall's definition: "Citizenship requires a bond of a different kind, a direct sense of community membership based upon loyalty to a civilization which is common possession. It is the loyalty of free men endowed with rights and protected by a common law."[22] "Sense of community" and "loyalty" are words we usually associate with what has become known as the communitarian view of rights and obligations in

[19] Ecologists have argued for an ecological concept of citizenship that defines such primarily in terms of obligation and belonging, e.g., as "fecund ecological processes that reveal the growth of commuity and the individuals who populate them." See Murray Bookchin, *The Rise of Urbanization and the Decline of Citizenship* (San Francisco: Sierra Club Books, 1987), 11.

[20] Hobsbawm, "The New Threat to History," *New York Review of Books*, December 16, 1993.

[21] Brubaker (fn. 1).

[22] Marshall (fn. 8), 40–41.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

the democratic state.[23] In this perspective, community implies not only belonging, solidarity, and rights, but also reciprocity and loyalty.

Attracted by the rights aspect, advocates have been inclined to ignore the fact that belonging requires the consent of the community. The beginnings of the Scandinavian welfare state can be traced to a time when emigration, not immigration, was the main problem.[24] And indeed, until recently the Scandinavian countries had been closed societies. But sharp increases in immigration and the numbers of asylum seekers have led to increased regulation of access.[25] The other side of redistributive policy is the creation of pools of fiduciary obligation. Precisely because they are redistributive rights, social rights inevitably imply the imposition of certain norms for reciprocal obligation. At minimum, these involve norms for standing within the redistributive community. Even when that redistributive pool becomes the state community, risk calculations concerning costs and benefits determine both willingness to pay on the part of the better off and the extent to which states can engage in protection of the needy.[26]

T. H. Marshall's Obfuscation of Citizenship

Marshall was very concerned with democratic consent and stressed the importance of social solidarity in a language that contradicts contemporary liberal, rights-oriented interpretations. He cannot be criticized for a one-sided focus on rights, but he can be faulted for conflating social citizenship with political and civil rights of citizenship. The tendency to obfuscate the difference between redistributive policy and citizenship can thus be traced directly to Marshall. He divided citizenship into three complementary parts, which have since been referred to as his "trinity": civil, political, and social citizenship. His description of civil rights could not have been colored by the innovation of affirmative action, with its assumption of the state's obligation to take positive action for equality. Instead, Marshall simply defined civil rights in

[23] William A. Galston, "The Promise of Communitarianism," *National Civic Review* 82 (Summer 1993); Amitai Etzioni, "Liberals and Communitarians," *Partisan Review* 57 (Spring 1990).

[24] Alva Myrdal, *Nation and Family: The Swedish Experiment in Democratic Family and Population Policy* (London: Kegan Paul, Trench, Turber, 1945).

[25] Immigration rates remained low until recently. Naturalization is difficult and rare. About 3% of the population of foreigners are granted citizenship every year. Half of the registered foreigners in Scandinavia are from another Nordic country. Sweden has the largest number of foreigners, Norway the least. In 1960 only 2.6% of people residing in Sweden were noncitizens. In 1990 6% were noncitizens and about 10% were foreign born. Sweden, Statistiska Centralbyrån, *Statistisk årsbok för Sverige 1992* (Statistical yearbook for Sweden) 78 (1992), table 55.

[26] Peter Baldwin, *The Politics of Social Solidarity: Class Bases of the European Welfare State, 1875–1975* (Cambridge: Cambridge University Press, 1990), 13.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

terms of the rights claimed by the European liberal tradition: "The rights necessary for individual freedom—liberty of the person, freedom of speech, thought and faith, the right to own property and to conclude valid contracts, and the right to justice."[27] Political rights are plainly typified as "the right to participate in the exercise of political power."[28] Considering that French women had obtained the right to vote only a few years earlier and the continuing disenfranchisement of American blacks, Marshall took political rights too much for granted. The reason was that he looked to social citizenship simply to find a tool for addressing social reform and a language that could be used to shape political consensus around expanding the welfare state.

Marshall's argument centered upon what he called "the social element." By social citizenship he understood the following: "The right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in the society."[29] In the realm of civil and political rights, the relevant institutions for implementation were the courts, parliament, and local governments. Social rights belonged to the realms of the educational system and social service. The foundation for what we can now clearly identify as a fallacy lies in Marshall's compartmentalization of citizenship into different institutional realms. He presumed these institutions to be parallel and equivalent institutions of government. They are not. The claims they grant individuals against the state vary widely. Interestingly, though not unaware of the problem, Marshall avoided a full discussion of its implications, which led to a basic contradiction in the essay: Marshall defined redistribution as a matter of citizenship, but was not willing to advocate the state's obligation to guarantee social equality. Instead of illuminating the difference between redistributive policy and citizenship rights, he obscured it by engaging in a lengthy discussion of the paradox of formalized equality (embodied in individual and universal rights and obligations, such as the right to vote, to enter into a contract, to engage in free speech) and the fact of social inequality.

Marshall was not a Marxist. He did not believe in the antagonism of the class struggle, nor did he advocate eliminating market competition. He held instead that with universal suffrage the class monopoly in politics had "definitely been overthrown."[30] "Class-abatement" through the redistributive welfare state thus represented a viable strategy for

[27] Marshall (fn. 8), 10.
[28] Ibid., 11.
[29] Ibid.
[30] Ibid., 37.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

modifying social inequality; inequality, that is, was remediable. His operational definition of social citizenship was simply a "universal right to real income which is not proportionate to the market value of the claimant."[31] Like Robin Hood, the welfare state is mean to some and good to others. It never treats all citizens as equals because for some to be beneficiaries others have to be benefactors. He acknowledged that universal rights did not really address inequality: "I have been skating gingerly over this very thin ice in order to make one point." He then concluded that "equality of status is more important than equality of income."[32] He was not ready to pursue the radical concept of equality implied by the language of social citizenship: "The right of the citizen . . . is the right to equality of opportunity."[33] Efficiency was sacrificed in the name of legitimacy: the neediest would be lifted out of poverty through the establishment of a social minimum but would never be equal.[34] Curiously, the presumption that universalism is superior to means testing as a way to address inequality has generally gone unchallenged.[35] Peter Baldwin's analysis of Bismarckian and Swedish welfare reform points to a very different interpretation of citizenship-type benefits—that in key respects the widening of the risk pool involved in the shift from insurance-type programs to the universal welfare state favored middle-class interests in intraclass redistribution.[36]

Marshall legitimized social citizenship by embedding the concept in a historical theory of social change as the gradual unfolding of successive stages of citizenship. This evolutionary conceptualization posits the eventual completion of social citizenship as an "end of history" ideal: "The urge forward along the path thus plotted [by previous battles over the extension of citizenship rights] is an urge towards a fuller measure of equality."[37] The recent debates cited earlier in this paper have similarly imbued social citizenship with particular significance. And Korpi and Esping-Andersen have also argued that social citizenship is the highest step in the development of the welfare state. Yet welfare state expansion is in no way uniquely Scandinavian.[38] Indeed,

[31] Ibid., 47.
[32] Ibid., 56.
[33] Ibid., 65.
[34] Ibid., 55.
[35] An exception is Francis G. Castles, ed., *Families of Nations: Patterns of Public Policy in Western Democracies* (Aldershot, England: Dartmouth, 1993).
[36] Baldwin (fn. 26).
[37] Ibid., 29.
[38] Alexander Hicks and Duane Swank, "On the Political Economy of Welfare Expansion: A Comparative Analysis of Eighteen Advanced Capitalist Democracies, 1960–71," *Comparative Political Studies* 17 (April 1984).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Esping-Andersen has since refined the approach, contending that his intention had not been to explain welfare state expansion as such but rather had been to explain the predominance of social rights over means-tested programs.[39] This modification in turn raises new questions. Are social rights superior to a means-tested program in terms of their capacity to ameliorate need and poverty? And if social citizenship was an intrinsic characteristic of the social democratic welfare state, why has even Swedish labor abandoned universalism so readily when it was in its interest to do so?

The Worker Citizen: The Social Democratic Approach to Social Welfare

The Scandinavian welfare states are usually held to embody the ideal of social citizenship and are often referred to approvingly in passing. Closer inspection reveals, however, that social citizenship has played less of a role than is often assumed, and when it has been important, it has not led to the creation of unconditional social rights. Two factors above all have shaped the Scandinavian welfare states. First, most social legislation has been designed to appease a broad electoral coalition that reaches far beyond the working class into the rural classes. Universal flat-rate pensions are the most frequently cited examples of such reforms based upon this broad coalition. Flat-rate people's pensions were created in all three countries: in Sweden in 1948, in Denmark in 1956, and in Norway in 1957.[40] The second is that the social democratic parties have been primus inter pares in shaping the welfare states: given the confines of electoral politics and the close ties of these parties to the unions, labor's interests were always taken into consideration. An overriding concern in the design of the welfare state has been to buttress union labor-market power.[41] The citizenship approach was used selectively when it suited political interests. Thus, unemployment insurance was kept under union control, while accident and sickness insurance schemes were taken over by government. When earnings-related pensions, known as the supplementary labor-market funds, were added in the 1960s and later, union interests also prevailed. Union control of the administration of government-supported unemployment

[39] Korpi (fn. 11).

[40] Gøsta Esping-Andersen and Walter Korpi, "From Poor Relief to Institutional Welfare States: The Development of Scandinavian Social Policy," in Erikson (fn. 5).

[41] Esping-Andersen (fn. 11); Peter Swenson, *Fair Shares: Unions, Pay, and Politics in Sweden and West Germany* (Ithaca, N.Y.: Cornell University Press, 1989), chap. 5.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

funds helps explain the ability of Scandinavian unions to mobilize new union members despite growing unemployment.[42]

The formation of the Scandinavian working class followed trajectories that shaped the political mobilization of labor and put it on a different track from that in the rest of Europe. By European standards industrialization was late, democratization early. The red-green electoral alliance of worker and agrarian interests grew out of proximity in life experiences and certain common denominators in norms and outlook. Swedish urbanization was particularly swift, occurring within only two decades. Norway remained rural longer, and even by 1960 two-thirds of the Norwegian population continued to reside in rural areas.[43] The sociological preconditions for the communitarian precepts of Marshall's conceptualization of social citizenship were clearly present in Scandinavian society, but more importantly, political necessity drove the Social Democrats to seek compromise.

Until the 1968 national election, when the Swedish social democrats obtained 50.1 percent of the votes, the party had depended for its legislative majority either on the support of the small parties of the left and the center or on division among the opposition.[44] Working with even smaller electoral margins, the Norwegian and Danish social democratic parties have had to rely even more on coalition building with other parties.[45] In Denmark the sectarian unpredictability of the communists and the far left has caused the social democrats to look to the center rather than to the left for support. It is particularly important to note that in all three cases the universal, flat-rate "people's pension" reforms were passed with the support of the center parties. In his book

[42] The British TUC now organizes less than 40% of the labor force in areas covered by affiliated unions, whereas in 1978–79 it organized 55–60%. In contrast, Danish union density (all areas) increased from approximately 65% in the mid-1970s to over 90% in the late 1980s. Similar figures apply to Sweden. See Bo Rothstein, "Labor-Market Institutions and Working-Class Strength," in Sven Steinmo et al., eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992).

[43] Based upon Stein Kuhnle's calculations, in Kuhnle, *Patterns of Social and Political Mobilization: A Historical Analysis of the Nordic Countries* (Beverly Hills, Calif.: Sage, 1975), 45. See also Matti Alestalo and Stein Kuhnle, "The Scandinavian Route: Economic, Social, and Political Developments in Denmark, Finland, Norway, and Sweden," in Erikson (fn. 5).

[44] In Sweden the Grand Coalition of World War II was followed by a social democratic government in 1944. From 1951 to 1957, when major social reform legislation was passed, the social democrats formed a coalition government with the Agrarian Party.

[45] The Norwegian labor party received 41% of the vote in the first postwar election but then gradually improved its standing, reaching 48.3% in 1957. In later elections, however, the party's share of the vote declined again and has ranged between 35% and 42%. The Danish social democrats have been hampered by persistent fragmentation on the left. Postwar highs of about 40% peaked in 1964 with 41.2% of the vote, but ten years later, in the 1974 "earthquake" election, the party received only 25.7% of the vote.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

on Swedish welfare reform, Sven E. Olsson detailed how the social democrats in the legislative committee that wrote the 1948 pension bill were divided on the issue of means testing. The demand that there be no such testing came from the conservative and agrarian party representatives and one social democrat. The rest of the social democratic party representatives supported means testing.[46] The votes were such that citizenship prevailed over means testing.

Given the closeness of the industrial working class and the rural classes (the latter consisting of fishermen, small farmers, and agrarian laborers) and the need to appeal to all of these groups in order to build a pro–welfare state coalition, it is hardly surprising that social citizenship in the Scandinavian version has had distinctly petit bourgeois implications. It has often been observed, for example, that in the Swedish Folkhemmet work is assigned a special status and is imbued with moral significance beyond its obvious importance as a cornerstone of the redistributive welfare state. The norms mirror two important aspects of social citizenship: the need to police entitlement and the need to construct a basis for social consent. Upon closer examination, one finds that contemporary social reformers are likely to find the normative implications of successful social citizenship to be too high a price to pay for social solidarity. In a 1988 collection of essays on the state of Swedish society, three Swedish sociologists described the concept of citizenship implied by the Folkhemmet program as based upon the norms and values of the commodity-producing society and family-centered households. The "people's home" metaphor posed the nation and the family as analogous units of solidarity and community.[47] Everybody is expected to contribute his or her share, but the community assumes the obligation of providing for those of its dependents who cannot do so. Concepts of autonomy and empowerment are entirely foreign to this vision. The image projected was that of the welfare state as one of "den stränge fadern och den goda modern"—the strict father and the good mother.[48]

The Scandinavian welfare states were built upon the presumption that everybody would be working. The collateral consequence is that the shift to high unemployment challenges the very fiduciary and elec-

[46] Sven E. Olsson, *Social Policy and Welfare State in Sweden* (Lund, Sweden: Arkiv, 1990), 100.

[47] Björn Fryklund, Ulf Himmelstrand, Thomas Peterson, "Folklighet, klass och opinion i svensk politik under efterkrigstiden," in Himmelstrand and Göran Svensson, eds., *Sverige–vardag och struktur: Sociologer beskrivar det svenska samhället* (Sweden: Everyday and structure: Sociologists describe the Swedish society) (Södertälje: Norstedts, 1988), 639.

[48] Gunnar Olofsson, "'Den stränge fadern och den goda modern': sociologiska perspektiv på den moderna svenska staten," in Himmelstrand and Svensson (fn. 47).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

toral legitimacy of the state.[49] Unemployment, or unwillingness to work, was exceptional, an intolerable aberration. Despite dramatic increases in registered unemployment since the early 1980s, the Scandinavian countries remain what in a comparative perspective might be called high-work societies.[50] In 1990, 81 percent of all Danish men and 72 percent of all Danish women between the ages of fifteen and seventy-four were in the labor force.[51] Swedes probably work even more. Because of differences in the statistical base population, direct comparison is not possible, but in 1991 86 percent of all Swedish men and 82 percent of Swedish women between the ages of sixteen and sixty-four were recorded as active in the labor market.[52]

The biggest programs in the Scandinavian welfare states that are not means-tested are, as elsewhere, flat-rate pensions and health benefits. In the context of social citizenship, flat-rate pensions have assumed particular importance because they are cited as evidence that the citizenship approach will produce comprehensive, universal, and highly legitimate social programs that will establish a social minimum. It is assumed that universal programs have greater legitimacy and consequently are more resistant to budget cuts, but in Scandinavia public support for spending on education is much weaker than support for old-age pensions. It seems that legitimacy depends more on *purpose* and *voter self-interest* than on the *means* of disbursement.[53] This does not support the contention of present-day advocates of social citizenship that the concept provides a way to avoid stigmatizing welfare recipients. If we are concerned about legitimacy of social programs, it seems even more important to consider the circumstance of their passage rather than program design.

Since the 1960s the Scandinavian social democrats have been battling over the creation of a dual pension system that would supplement the flat-rate pension system with various earnings-related insurance schemes based upon employer contributions to public funds. The

[49] Jon Eivind Kolberg, ed., *Between Work and Social Citizenship* (Armonk, N.Y.: M. E. Sharpe, 1992).

[50] Stefan Olafsson, "The Rise or Decline of Work in the Welfare State? Equality and Efficiency Revisited," in Kolberg (fn. 49), 67.

[51] Denmark, Danmarks Statistik, Socialforskningsinstituttet, *Levevilkår i Danmark: Statistisk oversigt 1992* (Living conditions in Denmark: Statistical review 1992) (1992), 154.

[52] Sweden, Sveriges Officialla Statistik, Statistiska Centralbyrån, *Allmän månadsstatistik* (General monthly statistics) 11 (1993), 37.

[53] Jørgen Goul Andersen, "Sources of Welfare State Support in Denmark: Self-Interest or Way of Life?" in Erik Jørgen Hansen et al., eds., *Welfare Trends in the Scandinavian Countries* (Armonk, N.Y.: M. E. Sharpe, 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

earnings-related pension reforms have, in contrast to the earlier universal flat-rate pension reforms, not garnered cross-class collaboration. In Sweden the bill creating the first earnings-related pension fund was passed by a narrow left-right vote of 115 to 114.[54] The battle over the earnings-related pension schemes drove the agrarian parties and other small centrist parties representing either rural interest or the self-employed out of the alliance with the social democrats. By tying benefits to employment, pension reform not only redefined work as employment, but it also departed in critical ways from the citizenship approach. It excluded the self-employed and the unemployed in equal measure.

Earnings-related pensions were established somewhat later in Denmark and Norway, indicative of the comparatively weaker electoral position of the social democrats. In all three countries labor-market pension funds remained controversial in the 1980s. One reason for the controversy involves the redistributive aspect of the funds, which benefits the employed at the expense of the self-employed. Another concerns the effect of the accumulation of savings in the funds upon the structure of capital formation. "Funds socialism" has been a common charge against the reforms, and in fact industrial-policy arguments were important in the creation of the funds.[55] The basic model remains the same in each country. By means of legislation or collective agreement—which in Scandinavia have always represented complementary ways of achieving social reform—the social democrats have pushed for the creation of large-scale centrally administrated pension funds based upon various combinations of mandatory copayment by employers and workers. Although the funds are underwritten and guaranteed by public or semipublic authorities, the national union confederations have fought, generally successfully, for complete or partial control over the funds and their investment policies.[56] Some unions and union confederations have retained private pension funds that generally follow the investment policies of the larger public funds.

[54] Olsson (fn. 46), 221.

[55] For a discussion of the Swedish confrontation over the first second-tier earnings-related pension reform, see Leif Lewin, *Planhushallnings debatten* (Stockholm: Almquist & Wiksell, 1967); and idem, *Ideology and Strategy: A Century of Swedish Politics* (Cambridge: Cambridge University Press, 1988). An account of recent developments in all three Scandinavian countries is contained in Fritz von Nordheim Nielsen, "The Politics of Aging in Scandinavian Countries," in John Myles and Jill Quadango, eds., *States, Labor Markets, and the Future of Old-Age Policy* (Philadelphia: Temple University Press, 1991).

[56] Jonas Pontusson, *The Limits of Social Democracy: Investment Policy in Sweden* (Ithaca, N.Y.: Cornell University Press, 1992).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Covering both private and public sector labor markets, the earnings-related pension schemes had the distinct advantage of easing differentials in the benefits structure of white-collar and blue-collar unions. The reforms have been instrumental in bringing white-collar workers in independent unions—unions not included in the social democratic national labor confederations known as the LO—under the social democratic umbrella of interest groups. The coverage of the earnings-related programs depends upon high labor-market participation rates and, in particular, full employment. The self-employed and those with no or little contact with the labor markets will receive only the minimum flat-rate benefit. It is already the case that private transfer incomes, such as supplementary labor-market benefits, have come to assume greater importance as a source of income for retirees. In Sweden earnings-related benefits bypassed the flat-rate benefits in importance as a source of income in the late 1970s, and since then the relative importance of the flat-rate benefits has continued to decline.[57] A 1987 Danish consumer survey showed that 24 percent of the income of retirees derived from private transfers, not including capital income from private savings and investments. Public transfer income, primarily the universal flat-rate retirement benefit for which one becomes eligible after the age of sixty-seven, accounted for 58 percent of the income of all retirees.[58]

I have focused upon retirement benefits, but a similar public-private mix is also characteristic of the occupational sickness system (with the exception of Sweden, where public provisions dominate).[59] Rather than the embodiment of social citizenship that they are often made out to be, Scandinavian welfare states represent what may be called a two-tier system of protection. A union model of delivery of social services is complemented by a universal and minimal citizenship-type benefit system. Organized labor has become less interested in defending the flat-rate pension system in step with the expansion of the earnings-related system. Another shift away from the statist universalism deserves notice. Recent welfare reform debates have emphasized how *private* initiative (charity) can be mobilized to supplement the basic public programs that have failed to do much to alleviate persistent pockets of poverty and deprivation associated with long-term unem-

[57] Olsson (fn. 46), 127.

[58] Danmarks Statistik (fn. 51), 215.

[59] Provisions for sick pay have met with political opposition because they have been linked to absenteeism. Olli Kangas and Joakim Palme, "Statism Eroded? Labor-Market Benefits and Challenges to the Scandinavian Welfare States," in Hansen et al. (fn. 53), 10.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

ployment.[60] The current picture of the Scandinavian welfare states departs in important ways from the social citizenship model. Universalism and citizenship have given way to welfare state pluralism: employees depend upon earnings-related benefits; social rights–type programs including both means-tested and universal benefits provide a social minimum; and private initiative plugs the holes. Although the social democrats are ambivalent about assigning a role to private initiative in the provision of welfare services, they have not been concerned about whether social citizenship would be undermined by the introduction of second-tier earnings-related reforms.

The "Woman-Friendly" Polity: Feminist Appeals and Maternalist Policy

The achievements of Scandinavian feminists are usually treated as collateral evidence in discussions of social citizenship. Yet this case provides at best only ambiguous support for a social rights argument. And like T. H. Marshall, Helga Hernes has also been subjected to selective interpretation. The foundation for women's claim to citizenship in what has been referred to as the "second wave" of Scandinavian feminism of the 1970s and 1980s was not social rights, but the right to work and the right to political representation. Hernes used Marshall's concept of social citizenship to formulate her argument for the "woman-friendly" polity, but her aim was to get women to claim more political power through the vote. She also recognized the divisive implications of arguments for group-based social rights. She wrote that social rights could be regarded as property rights to collective goods and, acknowledging the scarcity of redistributive goods, likely to produce increased contention among groups. It was inevitable, she wrote, that new claims with respect to social rights would lead to "discussions of distributional justice of a rather complex nature."[61] Her contribution to the citizenship debate was to suggest that women demand political representation of gender-specific *interests* much the same way previous generations of working-class men had claimed representation of class-based interests. Representation implies, however, not rights that are outside the realm of political compromise, but instead an engagement with the *political process*.

[60] For a landmark report in this respect, see Sweden, Statens offentliga utredningar, Socialdepartementet, *Frivilligt Social Arbete: Kartlägning och kunskapsöversikt: Rapport av socialtjänstkommittén* (Volunteer social work) 82 (Stockholm 1993).

[61] Hernes (fn. 12), 143.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Scandinavian women entered the labor market in record numbers after 1960. That year Danish women accounted for one-fourth of the employed workforce. In 1967 their share had grown to one-third; and a decade later it was close to today's numbers. In these matters Sweden again stands out. Since the mid-1980s, 94 percent of all working women between the ages of sixteen and sixty-four have worked more than twenty hours a week; and 48 percent of the employed workforce are women. In Norway and Denmark 45 percent and 46 percent of the workforce are women.[62] The demand for protective policies grew out of the real conflict between motherhood and work. Hernes made her case for "gender-abatement" through public policy on the basis of the observation that women do socially desirable work when they care for children and otherwise assume what Laura Balbo once referred to as "servicing work."[63] Because such work belongs to the private domain of the family, it cannot be commodified and lies outside the labor market. Nevertheless, because it is socially desirable work that would be very costly for the state to provide, it is in the interest of the state to *valorize* such work by means of public policy.

Hernes's injunction to state feminism produced ambiguous results. In Scandinavia class has prevailed over gender.[64] The social democrats appealed to women, not as a gendered category with interests that diverged from those of the typical social democratic male union worker, but as a low-wage partner in the unionized workforce of private and public sector employees seeking compensatory policies through a complex mix of policies related to the labor market.[65] Unions organized women as workers and defined women's labor-market interests as traditional union interests. The effect has been to reinforce the importance of employment (and unionization) as the foundation for the inclusion of women in the modern welfare state. Married women work

[62] *Fact Sheets on Sweden* (November 1992); Norway, Statistisk Centralbyrå, *Statistisk årbog 1992* (Statistical yearbook) 111 (Oslo 1992), 132, table 161; Statistiska Centralbyrån (fn. 25), table 188. See also Anne Lise Ellingsæter, "Changing Roles: Trends in Women's Employment and Gender Equality," in Hansen (fn. 53).

[63] Laura Balbo, "The Servicing Work of Women in the Capitalist State," in Maurice Zeitlin, ed., *Political Power and Social Theory* (Greenwich, Conn.: JAI Press, 1982).

[64] Danish unions replicate old crafts divisions and have continued to organize on the basis of skill and, given the high degree of labor-market segregation, gender. One of the largest is Kvindeligt Arbejderforbund (union of women workers), formed in 1901. It now organizes 97,000 unskilled women. On issues of pay equity, see Rachel A. Rosenfeld and Arne L. Kalleberg, "A Cross-National Comparison of the Gender Gap in Income," *American Journal of Sociology* 96 (July 1990).

[65] Mary Ruggie, *The State and Working Women: A Comparative Study of Britain and Sweden* (Princeton: Princeton University Press, 1984); Jane Lewis and Gertrude Aström, "Equality, Difference, and State Welfare: Labor Market and Family Policies in Sweden," *Feminist Studies* 18 (Spring 1992); Jane Jenson and Rianne Mahon, "Representing Solidarity: Class, Gender and the Crisis in Social-Democratic Sweden," *New Left Review* 201 (September–October 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

as much as other women (and in Denmark more), and although many work a reduced schedule, most work full time.[66]

Women's citizenship has been based upon employment, not gender-specific social rights. Their claim to special treatment by the welfare state was based on their dual status as workers and mothers. The state had a special obligation to women *in return* for women's caring work. It is consequently hardly surprising that Scandinavian social citizenship viewed from a gender perspective sometimes looks maternalist. Noting this, some feminists have criticized the Scandinavian model for this reason.[67] It is perhaps more surprising that the successful mobilization of women as voters has been far less successful in producing gender-specific policies. (Women occupy close to 40 percent of parliamentary seats in all three countries and are occasionally even in the majority in local political bodies.)[68] One reason is that once elected, gender-specific policy coalitions face great obstacles caused by party differences and political coalitions. Party discipline prevails in a parliamentary system, because defection often implies that the government will fall. Female members of Parliament tend to vote along party lines and not on gender-specific grounds. Although feminist appeals seemed to be very effective in mobilizing women to vote and in getting more women elected, they have not been particularly effective in shaping policy designs.[69]

The Rhetoric of Inclusion and the Reality of Entitlement Policing

I have here tried to address both the is and the ought of social citizenship. For reasons of both history and the trajectories of academic de-

[66] Norway has the most part-time work. Forty-seven percent of women work full time and 30% work between twenty and thirty-six hours weekly, while the rest work less than twenty hours per week. In Denmark only 38% of women (compared with 10% of men) work on reduced time. Denmark, Ligestillingsrådet, *Ligestillingsrådets årsberetning* (The Danish equal stations council's annual report) (1991), table 3. Unions have resisted part-time work. In response to demands for more time with children, they have instead used a strategy of seeking general reductions in work time to a thirty-five-hour week. Women have nevertheless increasingly shifted to reduced working hours. In Sweden the average workweek is 41.4 hours for men and 33.2 hours for women (1988). Inga Persson, "The Third Dimension: Equal Status between Swedish Women and Men," in Persson, ed., *Generating Equality in the Welfare State: The Swedish Experience* (Oslo: Norwegian University Press, 1990).

[67] Patricia Spakes, "A Feminist Case against National Family Policy: View to the Future," *Policy Studies Review* 8 (Spring 1989); R. Amy Elman, "Debunking the Social Democrats and the Myth of Equality," *Women's Studies International Forum* 16 (September–October 1993).

[68] Drude Dahlerup, "From a Small to a Large Minority: Women in Scandinavian Politics," *Scandinavian Political Studies* 11, no. 4 (1988); Elina Haavio-Mannila et al., eds., *Unfinished Democracy: Women in Nordic Politics* (Oxford: Pergamon Press, 1985).

[69] Hege Skeie, "The Rhetoric of Difference: On Women's Inclusion into Political Elites," *Politics and Society* 19, no. 2 (1991).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

bate, the comprehensive Scandinavian welfare states are usually linked to social citizenship. Yet as this account shows, the role of the concept in the expansion of the Scandinavian welfare state has often been misinterpreted. It has not been applied in program design to the extent claimed by proponents. And when applied, it does not create the kind of automatic right to no-strings-attached public support that proponents desire. In the Scandinavian context the concept assumed importance on three occasions, when it was used to propel shifts in the focus of mobilization for social reform. The first instance was in the prewar period, when the social democratic parties changed their electoral appeals from a workerist focus on class interests to a broader appeal to social welfare and reform. Appeals to citizenship rights were then advanced a second time, to build postwar cross-class coalitions supporting comprehensive welfare state reform when labor aligned itself with the rural underclass and small farmers. And a third time, in the late 1970s and the 1980s, feminist demands for greater policy responsiveness to the interests of women were formulated in terms of redistributive justice by virtue of citizenship. In each instance the language of citizenship was used by the underdog vying for recognition and inclusion in the formation of a coalition controlling policy-making. Labor, the rural classes, and women have all appealed to citizenship at various times. Historically, too, citizenship appeals left their most enduring impression on the design of welfare programs when the social democrats were forced to compromise with center-right parties in order to pass reform legislation.

Citizenship-type social programs (for example, pensions and health care) are tied above all to political compromise and tend to target social groups that are targeted as well by both the left and the right: the elderly or the sick and, it seems, maybe also women. Furthermore, the growth of these programs is related to the size of the elderly population and women's employment. Such programs favor the middle class at least as much as everybody else and are resistant to partisan difference.[70] The implication is of course that when social rights are justified in terms of citizenship, they also cease to be tied to class or need. The cautionary lesson for advocates of social citizenship is that, while political consensus might be gained by representing social policy as a right of citizenship, the strategy is also likely to result in a loss of control over who benefits.

[70] Fred C. Pampel and John B. Williamson, "Welfare Spending in Advanced Industrial Democracies, 1950–1980," *American Journal of Sociology* 93 (May 1988).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Social citizenship is not a magic wand that creates consensus ex nihilo around redistribution. If, as Hernes contends, it creates property rights in the state, the value of these rights is determined by who and how many share them. Open-ended admission for claimants—or the cumulative expansion of the pool of claimants by means of open admission for new categories of claimants—depreciates the value of existing property rights in the public budget. From the perspective of the citizen (that is, the individual already enjoying the privilege of protective policies), strict regulation of membership in the redistributive community is desirable because enlargement implies a depreciation of the future value of belonging. From the perspective of the state, fiduciary risk is a particularly important concern in the case of social rights because the latter create entitlements according to some minimal automatic criteria that translate directly into public expenditures.[71] Policing of entitlement thus takes a different direction than it does in the case of means testing, but it remains an important concern nevertheless. This latter point raises some important questions concerning the desirability of deepening our sense of the character of the obligation of the state toward individuals.

In Scandinavia the reliance upon earnings-related benefits ensures that a contributory principle reigns, and it alleviates the need for entitlement policing of earnings-related benefits: there is no entitlement without employment. This does not mean that issues concerning redistributive justice are irrelevant, however. The uneven pace of market dislocation and labor-market rigidities result in unemployment that is disproportionately concentrated among specific social groups. Immigrants are particularly vulnerable; in Denmark average registered unemployment among immigrants from countries outside the EU and outside the Nordic group was 31 percent in 1991. Close to three-fourths of such immigrants had been unemployed at some time in the course of the year.[72] In a recessionary labor market the costs of admitting new immigrants can theoretically be estimated as a function of the average lifetime social costs of immigrants. Numbers such as those just cited for unemployment among immigrants to Denmark indicate that it is very expensive indeed for a society committed to a social minimum to have a generous immigration policy. This is the basic risk cal-

[71] "Social citizenship refers to rights that individuals have as an outflow of their status as citizens. These social rights can be claimed without citizens having to demonstrate economic need. . . . Instead, claims are accepted if the individual falls in a specific category, for example in terms of age, health, or employment. When exercised, social rights established through legislation generate public expenditures." Korpi (fn. 11), 314.

[72] Danmarks Statistik (fn. 51), 380.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

culation that underlies contentious political struggles over immigration policy.

The recent surge in immigration and in the numbers of political refugees has generally led to tighter, rather than more lax, distinctions between public obligations to citizens and those to noncitizens.[73] Despite its large welfare states, however, Scandinavia is probably more hospitable to foreigners than, say, Germany or France; humanitarian policies have generally allowed political refugees to settle in increasing numbers. Sweden, nevertheless, has recently tightened its asylum policy. In 1992, 84,000 people asked for political asylum, but only 12,800 were granted it.[74] Asylum seekers are not covered by social policy rules but by special legislation, although once granted permanent residency and a work permit, foreigners are entitled to the same social services as citizens. Policies that ostensibly serve solidarity, however, in fact tend to make it more difficult for immigrants to find work. Thus, existing labor-market regulations and union agreements that guarantee the same wages, benefits, and working conditions for foreigners as for native workers actually ensure that employers see no advantage in employing foreigners.

Some who hold that the integration of immigrants should not imply any obligation to conform to the norms of the new country also argue at the same time that immigrants should also retain a right to the full benefits of citizenship, perhaps even more right than privileged groups of existing citizens. It follows from this argument that citizenship does not imply the application of universal norms but rather an obligation to accept compensatory and redistributive group-differentiated rights. Iris Marion Young lists thirteen groups that qualify for preferential treatment by the state in the name of citizenship. In the case of immigrants, she also concludes that citizenship implies that "linguistic and cultural minorities ought to have the right to maintain their language and culture and at the same be entitled to all the benefits of citizenship, as well as a valuable education and career opportunities."[75] Young's position addresses my earlier stated concerns regarding the exclusionary aspects of citizenship anchored in state communities because she treats everybody as a citizen, regardless of legal status. But it does not ad-

[73] Sweden, Statens Offentliga Utredningar: Delbetänkande av Socialtjänstkommittén, *Rätten till bistånd inom socialtjänsten* (The right to support within the social service) 30 (1993).

[74] Sveriges Officiella Statistik (fn. 52), 10.

[75] Young, "Polity and Group Difference: A Critique of the Ideal of Universal Citizenship," *Ethics* 99 (January 1989). Citizenship also implies "a positive obligation on the part of governments and other public bodies to print documents and to provide services in the native language of recognized linguistic minorities, and to provide bilingual education in schools" (p. 272).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

dress the issue of entitlement policing and risk-pool regulation regarding redistributive policy. An obvious implication of Young's approach is that it would be made more difficult for immigrants to enter. Budget constraints alone will naturally lead to the imposition of formal or informal quotas on access to the numerous social rights that immigrants should, in her view, be granted. Nor does it address the issue of democratic consent and intense distributional competition between in-groups and out-groups.

Many questions are raised by theories that justify differentiated citizenship based upon group rights to preferential treatment as a matter of public policy. For one thing, such arguments are counterfactual: if states have never done this, how reasonable is it to expect them to do so now? Second, theories of group-differentiated citizenship engender conflicting and competing claims. Does the right of immigrants to preserve their culture imply that the right of women to equal treatment does not apply to immigrant women from more traditional male-centered societies? Does the right to a job imply that unions do not have the right to control labor markets? The key problem is of course that citizenship implies a system of rules that leaves no room for *interpretation* on the part of political authorities. Indeed, it was this literal character of citizenship that made it revolutionary. Exactly because states could not discriminate between the *citoyen* and the aristocrat, the concept made equal what was unequal. Arguments for group-differentiated citizenship appeal to a higher norm for equality but would reestablish the constitutional foundation for political, social, and economic inequality. Differential citizenship implies the reestablishment of constitutional privilege for certain social groups.

Conclusion

Marshall's trinity of citizenship has been used to justify conceptual expansion of citizenship and to make the transition from an emphasis upon universal voting rights to welfare rights seem gradual. Current debates have also used his work to justify a second redefinition that extends the logic of redistributive social rights to redistributive civil and political rights. As I have argued here, this is a mistake. Redistributive social rights are not fundamental rights equivalent to political and civil rights. They are a matter of social policy; subject to political compromise and bargaining, they require the democratic consent of the community. Marshall's essay and the later accounts that rely on his definition of redistributive policies as matters of social citizenship

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

have left a trail of mislabeling in the literature on the welfare state.

Marshall's representation of redistributive policies as a matter of citizenship was intended as a rhetorical device for building electoral support for the expansion of the welfare state. It is necessary to move beyond this in order to address the question of how to make citizenship less exclusionary and encourage policies accommodative of immigrants and other groups. With respect to immigrants, I have argued here that *increasing* the level of the state's obligation to immigrants will only deter their accommodation. At the heart of the problem lies a trade-off between the continuance of protective welfare communities and globalization. Once borders cease to be insurmountable obstacles to the mobility of the poor, the disaffected, or the persecuted, policymakers in advanced welfare states are confronted with a visible problem of exclusion. But it is not only immigrants who are faced with exclusion in the advanced national welfare states. There are, at any time, persistent pockets of disadvantaged groups that cannot provide for themselves—welfare mothers, youth, the long-term unemployed. Presently, there are seventeen million unemployed Europeans. This state of affairs is not primarily the result of recession but is a reflection of the lack of employment opportunities for certain groups of people even when the economy is performing at its best. Which then is the more fundamental right: the right to employment and to provide for oneself and one's dependents, or the right to support from the state community? Can rich states or certain population groups hoard work opportunities and the benefits of growth for themselves? In its 1993 white paper, *Growth, Competitiveness, Employment*, the Commission of the European Communities began addressing these issues by attempting to shift the focus of the European social pact from welfare rights to employment.

I will conclude on a cautiously optimistic note. Supranational economic and political integration and collaboration offers a new opening for easing the trade-off between the welfare state and a liberal immigration policy. The present layering of policy-making authority between nation-state and suprastate within the European Union puts the advanced welfare state in a perspective that permits us to see welfare and state as linked in time and space, but not inevitably so. Observed in the rearview mirror, twentieth-century welfare states look like the epitome of the benevolent state community. Looking toward the future, with a reunited Europe and the political impossibility of sealed borders, it seems obvious that welfare policy and the state may become decoupled once again. Thus, citizenship, in all its multiple meanings of nationality, political representation, and social protection, loses its ex-

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

clusive focus upon state action. Asked in 1974 to consider the possibility of European citizenship, Raymond Aron replied that he could not even imagine nonnational citizenship. Ralf Dahrendorf thought otherwise: "The merger [of citizenship and the nation-state] is probably accidental; citizenship of the city-state has been real, and citizenship of the world is certainly conceivable."[76]

The Maastricht Treaty has declared European citizenship a fact. Although today it implies only a fundamental level of rights for citizens of the existing member states, it is entirely possible that in the future, residents of the EU may be able to obtain EU citizenship according to rules that differ from those of national citizenship in a given member state. In that case, supranational and national citizenship will coexist and the latter may continue to retain its character of state community. Exclusion from national citizenship will be tempered by the fact of certain minimum EU rights. Nonnational concepts of citizenship can best be described as citizenship differentiated by means of overlapping clusters of add-on rights. The political logic and the distributional implications of such deconstructed citizenship differ in significant ways from those suggested by advocates of group-differentiated privileges. The exclusive focus upon a state-centered conceptualization of citizenship with differential group rights invites intense intergroup competition and calls to mind an image of a pillored society, while concepts of citizenship detached from the state invite a more fluid picture. In the latter case, not all people will have the same rights and states will not be universally obligated to produce equality out of difference. Nor will social, political, and civil rights be linked, as in Marshall's trinity. But disadvantage and exclusion will be mitigated by making some protective rights available to everybody.

[76] Ralf Dahrendorf, "Citizenship and Beyond: The Social Dynamics of an Idea," *Social Research* 41, no. 4 (1974). See also Raymond Aron, "Is Multinational Citizenship Possible?" *Social Research* 41, no. 4 (1974).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Review Articles

PROCESSES OF DYADIC CHOICE FOR WAR AND PEACE

By BRUCE RUSSETT*

Bruce Bueno de Mesquita and David Lalman. *War and Reason: Domestic and International Imperatives*. New Haven: Yale University Press, 1992, 322 pp.
Zeev Maoz. *National Choices and International Processes*. Cambridge: Cambridge University Press, 1990, 609 pp.
John A. Vasquez. *The War Puzzle*. Cambridge: Cambridge University Press, 1993, 378 pp.

THE first three words in the title of this essay identify the convergence of theme among the three books considered here. Despite very important differences, that convergence is manifest; each word deserves emphasis in distinguishing the books from conventional works in the tradition of structural realism.

To begin with the last of those words—*choice* is essential. States, or their decision makers, choose strategies from a set of possible alternatives. They are not deterministically constrained by the structure of the international system to go to war or to submit to coercion. Skipping back to the initial word, *processes* is important in the plural, in two senses. First, choices are made through a domestic political process of decision making. Decision making within the government interacts with other domestic political actors, notably the opposition, in the form sometimes captured in game-theoretic formulations of two-level, or nested, games.[1] The process may vary with the international context (contemporaneous and historical) in which decisions are being made.

* I am grateful to Alex Mintz, Ian Shapiro, Alastair Smith, Harvey Starr, Alexander Wendt, and H. Bradford Westerfield for comments on an earlier draft, and to the John D. and Catherine T. MacArthur Foundation.

[1] See Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42 (Summer 1988); Keisuke Iida, "When and How Do Domestic Constraints Matter? Two-Level Games with Uncertainty," *Journal of Conflict Resolution* 37 (September 1993); George Tsebelis, *Nested Games: Rational Choice in Comparative Politics* (Berkeley: University of California Press, 1990).

World Politics 47 (January 1995), 268–82

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

But in no case is it purely endogenous to the international system; that is, it is not determined by the structure of the international system alone. Moreover, the process is likely to be markedly different for different countries. Second, and incorporating the remaining word, process is also importantly interdependent as a *dyadic* phenomenon. Thus, how one chooses is strategic, influenced heavily by the choices of one's dyadic partner/adversary in any bargaining game. From the perspectives of these books, it is at least as important to know about those processes of choice (including their domestic political roots) in explaining a state's decision as it is to know the familiar set of characteristics pertaining to the international system as a whole.

In elaborating these points all the books explicitly take aim at the realist ship of state that once ruled the theoretical seas. That ship was always vulnerable, top-heavy in firepower but with weak armor plating. Collectively, these broadsides leave a sinking hulk. Repair crews may tow realism into the dry dock, but new construction by a new generation of dreadnought designers is more in order. In Maoz's words (p. 548), strict versions of systemic theories, which envision national decision latitude as extremely limited even though not nil, are "useless theoretically," "empirically meaningless," and "normatively objectionable."[2] This may overstate the case, but the flavor of this judgment permeates all three books.

Domestic Politics and the International Interaction Game

Despite their explicit juxtaposition of a realpolitik analysis against one featuring the effects of domestic political process on war and peace decisions, Bueno de Mesquita and Lalman's analysis may strike many readers as the least sweeping of the three attacks on realism. Their analysis assumes unitary rational actors who choose according to the principles of expected utility, as implied by a powerful application of game theory. They retain the essential assumption of realist anarchy that states, in negotiating with others, cannot precommit themselves to a particular course of action nor convincingly forswear the option of

[2] Maoz may be too generous in saying that realist models do not require states' decision latitude to be nil. Kenneth Waltz declares: "The elements of Realpolitik, *exhaustively* listed, are these: The ruler's, and later the state's, interest provides the spring of action; the necessities of policy arise from the unregulated competition of states; calculation based on these necessities can discover the policies that will best serve a state's interests; success is the ultimate test of policy, and success is defined as preserving and strengthening the state." Waltz, *Theory of International Politics* (Reading, Mass.: Addison Wesley, 1979), 117; emphasis in original.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a preemptive strike; there is no supranational enforcing agency. Thus, the international interaction game is a noncooperative one. For purposes of defining the aims of foreign policy, the state is always assumed to be a unitary actor. But in their "domestic political process variant" they relax the unitary actor assumption to the degree that they allow domestic preferences to affect the choice of strategy and hence the magnitude of a particular demand at a particular stage of interaction—but without examining any particular processes.

This departure from structural realism is important.[3] Because of different domestic political processes, states may have quite different preference orderings for behavior in an interaction—with significant consequences. For example, doves may differ from hawks by preferring negotiation with an adversary over coercion, the result presumably being some degree of compromise. But there are different kinds of doves. If attacked, a pacific, exploitable dove will prefer to capitulate without fighting a war, whereas a tough dove will be ready to retaliate and even to initiate war rather than allow itself to be forced to capitulate. The latter illustrates a fundamental characteristic of Bueno de Mesquita and Lalman's analysis: a dovish preference ordering does not necessarily allow the dove to avoid war. Rather, in dealing with a hawk a dove's preferences may actually make it more likely that the ensuing interactions will culminate in the outbreak of war. Conciliatory norms succeed only with rivals who are similarly inclined to be conciliatory rather than with those inclined to exploit conciliatory behavior.

Bueno de Mesquita and Lalman's domestic politics interpretation of the international interaction game thus "enthusiastically embraces the notion that motives or preferences might be crucial in foreign policy choices" (p. 186), and these preferences are endogenous to the state itself, not endogenous to (determined by) the state's position in the structure of the international system. The authors make good use of the logic of game theory in explicating their models and the implications of those models. They also provide some detailed historical examples to illustrate the plausibility of their propositions—they recognize, however, the difficulty of establishing preferences and strategic reasoning in international relations, even when relatively good docu-

[3] Some such departure is essential to make sense of the realists' favored model of the security dilemma. One condition for a security dilemma is that any state, even if it seeks only security, cannot be sure whether other states are aggressive, rather than just security seekers. But if states' preferences are exogenous—derived from their place in the structure of the international system—their preferences for security/aggression should not differ; or if they do differ, they should be discernible to one another only insofar as the differences derive from their place in the structure.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

mentation is available. This problem typically plagues the application of rational choice models.[4]

The heart of their empirical effort is therefore a systematic statistical analysis of behavior in a large number of international crises. The post hoc analysis is largely confirmatory but has some predictive value as well, though rarely is the formulation that a single type of behavior will occur under certain circumstances. Rather, it usually predicts that certain types of actions will not occur. For example, greater expected utility for war is a necessary but not sufficient condition for a choice to wage war. (Prospect theory may offer a useful perspective, however, in its prediction that decision makers will be risk averse when it comes to seeking gains.)[5] This limits the empirical power of the predictions the authors can make, but of course it is consistent with their emphasis on the possibility of choice. In an extensive set of quantitative tests juxtaposing the two theoretical systems they can, however, repeatedly show the domestic politics variant to be more powerful; that is, they can explain substantially more of states' behavior in the modern international system. The result is thus important on a metatheoretical level if not for major predictive purposes.

Moreover, in the hands of Bueno de Mesquita and Lalman domestic politics constitutes far more than just a big clump of sand in the gears of rational decision making. Their characterization of realism gives rise to an impossibility theorem—that under conditions of complete information no state would ever either acquiesce to another state's demand or start a war; it would always attempt to negotiate further. Yet among their 707 dyadic interactions they find 109 cases of acquiescence. And war of course also occurs in reality. By their logic it is imperfect information that encourages war, with misperception steering rivals away from negotiation or the status quo. They thus assume that states do act with the intention of maximizing their *expected* utilities, even though in practice they may get some low-utility outcomes: "There are recurring opportunities for states to choose carefully and

[4] For a discussion of this problem in international relations, see Paul Huth and Bruce Russett, "Testing Deterrence Theory: Rigor Makes a Difference," *World Politics* 47 (July 1990); for a trenchant general challenge to rational choice models on grounds or empirical inapplicability, see Donald Green and Ian Shapiro, *Pathologies of Rational Choice Theory: A Critique of Applications in Political Science* (New Haven: Yale University Press, 1994).

[5] See, for example, Daniel Kahneman and Amos Tversky, "Prospect Theory: An Analysis of Decisions under Risk," *Econometrica* 47, no. 2 (1979); George Quattrone and Amos Tversky, "Contrasting Rational and Psychological Analyses of Political Choice," *American Political Science Review* 82 (September 1988).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

reasonably paths of action that, nevertheless, lead to undesired results" (p. 265). But their model that incorporates strategic preferences induced by domestic politics explains acquiescence and other forms of war avoidance, even with incomplete information, in ways that their realpolitik model cannot. Misperception, coupled with the influence of domestic politics, sometimes allows states "mistakenly" to avoid war and stumble into negotiation. Uncertainty plus domestic politics can ameliorate relations in ways not possible in a world of realist assumptions (pp. 267–69).[6]

By incorporating assumptions about the role of domestic political processes, Bueno de Mesquita and Lalman substantially strengthen their explanations. Moreover, such assumptions allow them to offer plausible explanations of phenomena not even suggested by realpolitik models, for example, about why democracies rarely fight each other. They consider, on the one hand, how the constraints of democratic politics make democracies less likely to initiate war against each other and, on the other hand, how certain conditions leave democracies more likely to initiate war against nondemocratic states because the latter may mistake the character of democracies' constraints and conclude that they can push democracies around.[7]

But aside from these relatively brief remarks, the reader will not encounter much discussion of domestic political processes per se. This is not a book about such processes or about how the preference orderings arise. It is only about the necessity of allowing preference orderings for various outcomes to vary as if those preferences were influenced by some kind of domestic political process. The authors' assumption largely comes down to a declaration that states' demands substantially reflect some domestic political process and are not determined primarily by position in the international system. It is not a realist assumption, but it does not go much beyond saying that all states' preferences are not the same (or subject to the same variables deriving from states' positions in the structure of the system).

[6] Their realpolitik and domestic politics models are of course highly stylized and constrained by their assumptions. Realist theorists might well reject as inaccurate Bueno de Mesquita and Lalman's characterization of their realist assumptions and logic. In that case, however, the burden shifts to the realists to provide a model they consider to be a more accurate representation. Maoz lays out reasoning about how imperfect information in the processes of foreign policy decision making can be an important force in avoiding war, not, as in the most familiar formulations, a factor raising the likelihood of war.

[7] They do not, however, test this explanation against variants that attribute peace between democracies to other kinds of preferences or perceptions. I have partially incorporated and modified their argument and other arguments as well, in Bruce Russett, *Grasping the Democratic Peace: Principles for a Post-Cold War World* (Princeton: Princeton University Press, 1993), chaps. 2, 4.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

As such (and in conjunction with the domestic unitary actor assumption), it says little more than that the preference ordering of the top decision maker of a given state may be different from the ordering of leaders of other states. It avoids the problem of aggregating individual preferences by remaining consistent with a specification that the principal decision maker acts on behalf of the state as if the state had a single decision maker. It really requires only that we assume the single decision maker can have some quirky preferences. The notion of a "domestic politics" version of the authors' international interaction game may seem to imply that the book contains a theory about why states' preferences are as they are. A reader expecting that will be sorely disappointed, and the alternative to realism as a wide-ranging theory is thus underdeveloped.

There is an irony here. Classical rational choice theory, epitomized by Arrow's impossibility theorem or subsequent theories of cycling, is reductionist, that is, individualist.[8] Choices made by social entities do not necessarily coincide with the preferences of individual members, even the most powerful ones (providing no one is a "dictator"). Moreover, choices made by entities are not necessarily stable even in the face of stable preferences. Yet when theories of international relations like that of Bueno de Mesquita and Lalman retain the "as if" version of the unitary actor assumption, they fail to utilize all of the elaborate rational choice apparatus for how individual preferences may be transformed into a collective decision. In endogenizing preferences to the state, they have moved in "reductionist" fashion down one level from Waltzian systemic constraints, but their reductionism stops there. By not incorporating an analysis of domestic political process—for example, cycling behavior or the possibility that choices in the name of the state may not represent transitive preferences—they treat foreign policy choices as endogenous to the state, yet implicitly stable.

Furthermore, they hold to the assumption that the top decision maker is acting in the state's interest as perceived by the decision maker or as expressed by the domestic political process. One still assumes that the decision maker is maximizing the state's interest as power, or security, or some such—allowing that states with different domestic political processes will have different perceptions of what that interest is. Why so? If domestic political process is important, the top decision maker's interest in maximizing his own interest, as power

[8] Kenneth Arrow, *Social Choice and Individual Values* (New Haven: Yale University Press, 1951); for some broad implications for democracy, see William Riker, *Liberalism against Populism* (New York: W. H. Freeman, 1982).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

or security, may not coincide at all with the state's. The top decision maker is concerned with staying in power and pursuing personal and partisan political goals, as well as those of the state. Depending on the dynamics of actual and anticipated domestic opposition, the leader may find it expedient to manipulate information, to provoke a crisis, to hang tough in one, or to capitulate, whether or not the state's (or country's) best interests are thereby served.[9] Even if the state's and the leader's interests coincide in the short run, they may not do so in the longer run. The top decision maker may weaken the state's long-run interest by virtue of his own high discount rate. Absolutist and unitary French monarchs are known not only for saying, "L'état c'est moi," but also for "Après moi le déluge."

Rationality, Cognition, and Processes of Choice

Working from a parsimonious system, Bueno de Mesquita and Lalman deduce some powerful propositions, which they then subject to systematic empirical test with largely confirmatory results. Parsimony has its costs, though, in dichotomizing actors as hawk or dove, rather than placing them along a continuum, and in occasionally yielding dubious assumptions or measurements.[10] Nevertheless, the limited

[9] See, for example, Paul Huth and Bruce Russett, "General Deterrence between Enduring Rivals: Testing Three Competing Models," *American Political Science Review* 87 (March 1993); Russett, *Controlling the Sword: The Democratic Governance of National Security* (Cambridge: Harvard University Press, 1990), chap. 2; Alex Mintz, "The Decision to Attack Iraq: A Noncompensatory Theory of Decision Making," *Journal of Conflict Resolution* 37 (December 1993).

[10] Limitations are also evident in some of the assumptions, for example, that the domestic costs of initiating use of force rise with the subjective probability of success in a dispute: people do not like to bully weaker partners, so even when they can get their way by force, they prefer to negotiate (p. 46). (The probability of success is positively correlated with the degree to which the relative power balance favors oneself.) Though important to their model, this assumption is not well defended. In the Hempel tradition of seeking "covering laws" to which they appear to subscribe, assumptions should not be unrealistic. See Bruce Bueno de Mesquita, "*The War Trap* Revisited: A Revised Expected Utility Model," *American Political Science Review* 79 (March 1985).

A different kind of problem arises (pp. 166–67) with Bueno de Mesquita and Lalman's claim to explain an apparent anomaly, initially reported by Bueno de Mesquita, that allies are more likely to fight each other than chance would predict. See Bueno de Mesquita, *The War Trap* (New Haven: Yale University Press, 1981). Their theory allegedly solves this puzzle, and they show that empirically the general pattern does not apply to democratic allies, who are less likely to fight. But it turns out that in an equation with proper control variables, even nondemocratic allies are less likely to engage in conflict with each other. See Stuart A. Bremer, "Dangerous Dyads: Conditions Affecting the Likelihood of Interstate War," *Journal of Conflict Resolution* 36 (June 1992); and Zeev Maoz and Bruce Russett, "Normative and Structural Causes of Democratic Peace, 1946–1986," *American Political Science Review* 87 (September 1993).

Maoz notes that "the difficulty of assigning preferences over a multitude of possible situations is perhaps the main deterrent of statistical analyses of game theoretic models in international politics" (p. 405). In their empirical work Bueno de Mesquita and Lalman still use what they acknowledge to be a crude component of utility—a measure of similarity in alliance portfolios. To derive a measure of

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

process validity of their model is justified by its outcome validity. Maoz's book, by contrast, is neither parsimonious nor predominantly deductive, although it also freely employs the logic of game theory and other mathematical analysis. It is ambitious, complex, "messy" (but not sloppy), and often indeterminate. It too rejects intellectual efforts to ignore the domestic political determinants of foreign policy choice, and it attempts to develop a systematic model of the foreign policy process. In so doing it directly confronts the question of rational action that Bueno de Mesquita and Lalman resolve by assumption.

Like Bueno de Mesquita and Lalman, Maoz does not try to determine where individual preferences come from.[11] But he does attempt to tell us something about the processes by which different preferences may be brought into play. Maoz insists that one must identify the conditions that trigger a particular decision rule. He thus replaces assumptions of rationality with a set of hypotheses about rationality as a context-dependent mode of behavior. Actors may follow particular reasoning principles, such as maximizing their expected utilities, in some political contexts but not in others. By incorporating this refinement, Maoz is able to connect game theory with other aspects of bargaining theory, social psychology, and theories of the international system. Context dependence implies that foreign policy choices will not necessarily be stable, even aside from cycling and related rational choice phenomena.

Context dependence for Maoz also means that unitary actor assumptions are discarded in recognition of collective decision making as a function of individual preferences and personalities, group structure, and interaction among individuals. The propensity of a decision maker to act rationally will vary, for example, with the degree of stress she is

utilities for alternative outcomes, they must modify this by differences in leaders' risk propensities. The result reduces the impact of system-level calculations on decisions to initiate or escalate conflicts, without employing the context-dependent utilities that Maoz prefers. Maoz did not anticipate (p. 404) "game theoretic predictions" tested with "aggregate empirical data," as was done by Bueno de Mesquita and Lalman, or by James Fearon, "Domestic Political Audiences and the Escalation of International Disputes," *American Political Science Review* 88 (June 1994); and in three articles in *Journal of Conflict Resolution* 38 (June 1994): Fearon, "Signalling vs. the Balance of Power and Interests: An Empirical Test of a Crisis Bargaining Model"; John Conybeare, "Arms vs. Alliances: The Capital Structure of Military Enterprise"; and Ido Oren, "The Indo-Pakistani Arms Competition: A Deductive and Statistical Analysis."

[11] Recent, very different efforts to treat preferences as variable across time and/or space include Alexander Wendt, "Collective Identity Formation and the International State," *American Political Science Review* 88 (June 1994); David Lumsdaine, *Moral Vision in International Politics: The Foreign Aid Regime, 1949–1989* (Princeton: Princeton University Press, 1992); and the literature on the "democratic peace," to which Maoz was an early contributor. See Zeev Maoz and Nasrin Abdolalli, "Regime Type and International Conflict," *Journal of Conflict Resolution* 33 (March 1989).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

experiencing. Key variables are not dichotomized, nor are relationships assumed to be linear. Decision makers will not always act according to the principles of analytic choice (as in maximizing expected utility) but will do so primarily when stress is neither too high nor too low. At low levels cybernetic processes of decision behavior are more common, and high levels of stress are associated with cognitively derived decision behavior (pp. 318–20).[12] Similarly, stress is related to ambiguity about the meaning of information, with more ambiguity perceived at moderate levels of stress than at either low or high levels. High ambiguity is in turn associated with a tendency to employ analytic choice methods (p. 321). In other words, the ability of decision makers to act like good game theorists and maximize their expected utilities varies with the degree of stress under which a given decision maker finds herself.

Furthermore, different institutional contexts favor or disfavor the use of analytical thinking; thus, states vary in their ability to be good practical game theorists. The longer an individual's tenure in office, the less disposed she may be toward analytic choice behavior (cybernetic behavior comes more easily). The more diverse the initial distribution of individual preferences, the more analytic is the group decision process. The more diverse the formal authority structure of a decision-making group, the more likely it is to engage in analytic choice behavior (pp. 330–42). Brought together—although Maoz himself does not make this point—this sounds like a set of principles suggesting that democracies should make better-quality foreign policy decisions, at least insofar as better quality is equated with an analytic process. So much for the hoary notion that democracies are prone to make decisions of poor quality.[13]

[12] This suggests an empirical test: do Bueno de Mesquita and Lalman's empirical results fit their model's expectations more closely at lower (presumably less stressful) levels of conflict than at the high levels of war and peace decision? Another important challenge to expected utility theory is mounted by Mintz (fn. 9), who argues that even though a particular action might offer the greatest expected utility by holistic criteria, a decision maker may reject it because it fails to satisfice on a single critical dimension, such as protecting one's position in domestic politics.

[13] Further grounds for rejection of that notion are given in recent work showing that democracies are more likely than are authoritarian regimes to win the wars on which they embark (80% of the time—not bad considering the odds of a coin toss are 50–50) and more likely to hold accountable those leaders who embark on wars they lose. See David Lake, "Powerful Pacifists: Democratic States and War," *American Political Science Review* 86 (March 1992); Bruce Bueno de Mesquita, Randolph Siverson, and Gary Waller, "War and the Fate of Regimes: A Comparative Analysis," *American Political Science Review* 86 (September 1992), 639–46; Bueno de Mesquita and Siverson, "War and the Survival of Political Leaders: A Comparative Analysis" (Paper presented at the annual meeting of the American Political Science Association, Washington, D.C., September 1993). Maoz later remarks, however, that people with rigid, authoritarian, cognitively simple personality structures who work in hierarchical or centralized regimes are more likely to take a strategic perspective (p. 530). (Take that, game theorists!)

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Standard rational analytic models may yield dangerous recommendations, however. Maximizing expected utility is not always a prudent strategy. Sometimes, in what might at first look like suboptimal behavior, one can do better by foreclosing certain options (for instance, the chicken player who throws away his steering wheel and thus forces the adversary to swerve). Recall too that some strategies, while often excessively conservative, may be entirely prudent. A strategy designed to assure some mimimum payoff (avoiding a crash) could be very prudent when playing chicken. States may sensibly follow a safety strategy, that is, one that by being insensitive to the opponent's preferences or strategy assures some minimum payoff. Such a strategy can be prudent as a guard against misperception (as from imagining that one's chicken opponent is risk averse; p. 438).[14]

It is thus essential to ask what determines a state's strategy. Strategic choices are derived not only from preferences but from attitudes toward risk—which for Maoz are influenced in part by the circumstances. States will be more risk averse when the stakes are higher and hence will be more likely to choose a safety strategy (p. 507); cold war nuclear confrontations may have been cases in point. The context dependence of such choices means that there is no general formulation of a strategic approach to iterated games, that is, no comprehensive theory of why strategies are chosen and changed (p. 513). Understanding process refers not just to domestic political processes, but also to the process by which states interact and change strategies. In other words, one must incorporate evidence about how states learn from experience, including in previous crises, and as a result come to favor strategies that are either more risk prone or more risk averse.[15]

Maoz admits that his theory is "far from parsimonious" (p. 373). That lack of parsimony, coupled with the consequent demands for actor- and context-specific information, circumscribes its usefulness in prediction. Perhaps its greatest value will be for scholars and decision makers who are deeply concerned with particular long-term conflict relationships, where context and history are best known. These would include long-term rivalries such as the cold war or the extended adver-

[14] Walter Isard makes this point more generally, that a decision maker "may wish to minimize his losses, maximize his gains, minimize his expected losses, or maximize his expected gains. Or he may want to minimize his regret." See Isard, *Understanding Conflict and the Science of Peace* (Cambridge: Blackwell, 1992), 30. Isard also notes the goal may be satisficing or maximizing expected utility. See also the reservations expressed by Michael Nicholson, *Rationality and the Analysis of International Conflict* (Cambridge: Cambridge University Press, 1992), esp. chaps. 3, 6.

[15] Russell Leng, *Interstate Crisis Behavior, 1816–1988: Realism vs. Reciprocity* (Cambridge: Cambridge University Press, 1993); Huth and Russett (fn. 4; fn. 9).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

sarial relationship between Israel and its Arab neighbors. Perhaps it is no accident that Bueno de Mesquita and Lalman, Americans reaching for principles of a general theory of international conflict behavior, pursue a different approach than does Maoz, whose experience and scholarship are deeply enmeshed in one particular set of supremely important adversarial relationships.

Where Do All the Preferences Come From?

Bueno de Mesquita and Lalman show us that differences in states' preference structures may have great consequences for decisions about peace and war. Maoz begins to tell us why states' preferences vary as a result of both domestic political processes and the processes of international interaction. Vasquez primarily considers those elements of international politics that are sources of preference differences; and his intellectual orientation is very different from that of the others. His research strategy, one of induction, reviews a wide range of evidence to see whether new explanations can be derived from the evidence. It is empirically rather than logically driven and closer to a metanalysis than to a process of hypothesis confirmation. He extends Maoz's preference for context over standard rationalistic models to an overt emphasis on history, cultural variation, and beliefs. But whereas he rejects the strict positivist's search for timeless laws of politics, he is nevertheless looking for generalizations (pp. 5, 9). In searching for "empirical regularities" as a source of theory rather than as confirmation of a theory, his product illustrates the strengths and weaknesses that have been well rehearsed for readers of this journal.[16] At the least, he provides a wide range of interesting hypotheses to ponder.

Like the others, Vasquez emphasizes dyadic interactions rather than either single-state or systemic analysis. But he is looking primarily at a particular kind of dyadic interaction—that between states of roughly equal power engaged in long-term rivalries that often culminate in war. He believes that such rivalries change states' preferences by generating hostility, mutual frustration, and a willingness to hurt the other side

[16] Notably in the special issue on the rational deterrence debate, *World Politics* 41 (January 1989). An example of the weakness in Vasquez's approach emerges in his remark that "alliances do not prevent war or promote peace; instead they are associated with war . . . although they are probably not a cause of war" (p. 159). A formal model helps make much more sense out of ambiguous empirical results on this matter, as shown by Alastair Smith, "Alliance Formation and War" (Paper presented at the annual meeting of the American Political Science Association, Washington, D.C., September 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

as an end in itself, often without much regard to the costs to oneself (p. 65). Conflicts preceding wars of rivalry make for such hostile, emotion-laden relationships that states may attack in disregard for their own weakness. Consequently, the kind of rationalistic cost-benefit analysis epitomized by Bueno de Mesquita and Lalman's states does not apply.[17]

In its specifics, this assumption is problematic. If the cold war represents an example of a long-term rivalry, why did it not result in real war? Save perhaps in the potlatch of wasteful arms race competition, the participants typically did not inflict costs on the other without regard to their own costs. Arguably the participants were risk averse even at relatively low levels of conflict. For example, the Reagan administration's policy of inflicting pain on the Soviet Union by supporting insurgencies against Soviet-backed regimes in Afghanistan, Cambodia, Nicaragua, and Africa provided low-cost, low-pain operations for Americans (though of course not for the Afghanistanis and the others). Other long-term rivalries have also avoided major war, notably those between other states whose areas of vital interests were separated by oceanic or other topographical barriers. Or was it that the United States (and its alliance) was always—despite the cold war rhetoric of both sides—markedly stronger than the Soviet Union (and its allies), in which case it was not a long-term rivalry of equals after all?[18] Whether the Soviet-American rivalry was one of the long-term cases in which rivals generally do make rational decisions, or whether it was an imbalanced "rivalry" protected from the emotions typical between equals, standard expected utility calculations would still seem highly relevant. Is it only when long-term rivals violate expected utility precepts that they go to war?

Vasquez nevertheless might plausibly claim that long-term rivalries do distort states' preferences. If long-rivalrous states undergo shifts in their relative capability, uncertainty and cognitive errors are more

[17] Bueno de Mesquita and Lalman certainly do not agree. Rather, they take pains to show that their analysis is not limited to particular kinds of wars, that they consider it self-evident that it applies to rivalries (p. 243), and that they have had empirical success with all wars, not only big ones.

[18] I develop these points in Russett, "The Alleged Role of Nuclear Weapons in Controlling the Soviet-American 'Enduring Rivalry,' and in the Future," in Jorn Gelstad and Olav Norstad, eds., *Nuclear Technology and International Politics* (London: Sage, 1994). The fact that the United States and the Soviet Union were not involved in any direct territorial conflict may have been an important mitigating factor. Vasquez pays great attention to territorial disputes, suggesting that "the error in realist thinking is to assume from this experience that there is a constant struggle for power operating, when in fact there may be only a struggle for contiguous territory" (p. 295). Kalevi J. Holsti contends that about half of all wars between Westphalia and World War I were over territory. Holsti, *Peace and War: Armed Conflicts and International Order, 1648–1989* (Cambridge: Cambridge University Press, 1991).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

likely.[19] Powerful states are caught in a "culture of war" (p. 162) that makes war more likely. But is this because their domestic political cultures produce a culture of war that enmeshes them in rivalries, or is it because the rivalry—a pattern of interactions—produces a domestic political culture of preferences and a set of foreign policy practices that encourage confrontation and war (for example, pp. 195, 218)? By contrast, "a state with a reduced military, low military expenditures, and a public that is difficult to mobilize is not very threatening. The willingness of the leadership to take accommodative actions also makes war less likely by their reluctance to take steps that intensify hostility and increase the influence of hard-liners in the opposing side" (p. 222).

Here Vasquez seems to differ from Bueno de Mesquita and Lalman: the former emphasizes a state's *own* preference structure, whereas the latter usually focus on one state's perceptions of the *other*'s preference structure. At the very least we have the chicken-egg problem. At worst, we have an irony. Vasquez's book avowedly sets itself against "the traditional realist lore," yet the chapter on domestic politics largely eschews domestic influences as the source of preference variation and instead emphasizes preferences as deriving from the dyad. Vasquez, in effect, exogenizes preferences to that part of the international system represented by the dyadic relationship, whereas Bueno de Mesquita and Lalman endogenize preferences to the state.

It is striking that none of these three books develops a serious theory of how domestic political process affects foreign policy choice. Bueno de Mesquita and Lalman note that different types of domestic political systems have an effect but tell us little about how choices are made. Maoz tells us a lot about process, but mostly in the realm of cognition and the social psychology of choice within foreign policy institutions rather than in the sphere of politics more broadly (that is, in Harold Lasswell's famous terms, "Who gets what how?"). And Vasquez's chapter on the domestic prerequisites of war is his least developed and least comprehensive literature review.[20] A thoroughgoing

[19] Exemplars of this point of view are Jacek Kugler and A. F. K. Organski, "The Power Transition: A Retrospective and Prospective Evaluation," in Manus Midlarsky, ed., *Handbook of War Studies* (Boston: Unwin Hyman, 1989); and Charles Doran, *Systems in Crisis: New Imperatives of High Politics at Century's End* (Cambridge: Cambridge University Press, 1991).

[20] Oddly, Vasquez also shows little interest in game theory despite its extensive applications to the realm of dyadic relations. "In the end, probably more will be learned by explaining deviations from rational behavior then by formal models themselves" (p. 219). It is hard to know quite what this means. Presumably Bueno de Mesquita and Lalman would contend that while other models of decision making, like prospect theory, can help explain anomalies, their expected utility model should be used to identify central tendencies. Maoz might say that the usefulness of different models varies across different contexts and therefore prevents any one from being "more" useful.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

critique of realism needs to get down to microtheory (utilizing public choice approaches, among others) and microanalysis. It needs to incorporate not just the dynamics of decision making within governments but also the dynamics of interaction between government and opposition.

Perhaps Vasquez's most valuable contribution in emphasizing the character of the international system is that he features a pattern of norms and practices ignored by the structural realist, who focuses on power relationships. For Vasquez, periods of peace offer a rich global context, constructed principally by the major states, that establishes rules for the conduct of international relations and the institutions (formal and informal) for resolving disputes. "Periods of peace are associated with informal decision games that are able to resolve disputes or with procedures—such as third party mediation or conferences among major states—that can manage crises and/or reduce tensions in relations" (p. 269). Peace reflects a kind of governance, an often invisible exercise of political rule to settle disagreements. In effect (and contra Bueno de Mesquita and Lalman, who embed preferences for negotiation in domestic political characteristics), states exhibit a preference for negotation in contexts where international institutions are in place to make successful negotiation likely. The "crisis game" is thus embedded in a larger set of norms and practices. "Certain global institutional contexts can eliminate the conditions in which disputes and practices related to war become ingrained and highly functional" (p. 290).

When and why do these conditions arise? The when seems to be after major, systemwide wars; the why may be rooted in changes of cognition (learning) or in changed preferences. Realism has great difficulty in accounting for such changes. Vasquez castigates adherence to realist practices (alliance formation, military buildups, threat, and coercion) as responsible for continuing outbreaks of war.[21] Instead, he proposes that the effects of the realists' anarchy can be mitigated by a change in practices even while the fundamental characteristic of anarchy—the state system itself—persists. There have historically been windows of opportunity for institutionalizing peaceful means of conflict resolution, at the end of great wars. The record of those experiences—the Concert of Europe, the League of Nations, United Nations model I—is, however, mixed. Perhaps a newly opened window is

[21] Maoz and Leng (fn. 13) would largely agree, particularly in the context of crisis bargaining, during which psychological and domestic political variables may override "rational" interstate power calculations.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

now closing, or has already closed. Yet big consequences can also follow from small causes.[22]

Although none of these books tells how such changes might occur, each alerts us to some possibilities for understanding and provides some leads. The spread of democracy, if consolidated, could change both states' own preferences toward fighting other states (other democracies, at least) and their expectations of how other states (democracies) will behave. Democracies would be more prone to analytic decision making. The end of the cold war removes the threat of intense major power crises and the concomitant, highly stressful decision making under which tolerance of ambiguity would be low. Similarly, the end of the cold war breaks the pattern of hostile interactions that sustained a culture of confrontation in the superpowers' domestic politics, and leaves international institutions better prepared to promote negotiation and the peaceful resolution of conflicts.[23] If patterns of hostility are learned through experience, they can be unlearned through experience. With all the gaping holes in the realist ship of state, construction of a policy-relevant post-realist vessel is overdue.

[22] Bueno de Mesquita and Lalman make the point that game theory can account for such changes, including the end of the cold war (pp. 248–50). Changes in equilibria can follow from small variations in variables. Contra John Lewis Gaddis, chaos theory or catastrophe theory is not required. See Gaddis, "International Relations Theory and the End of the Cold War," *International Security* 17 (Winter 1992–93).

[23] And democracies are readier to use those mechanisms. See William Dixon, "Democracy and the Management of International Conflict," *Journal of Conflict Resolution* 37 (March 1993); idem, "Democracy and the Peaceful Settlement of International Conflict," *American Political Science Review* 88 (March 1994); and Gregory A. Raymond, "Democracies, Disputes, and Third-Party Intermediaries," *Journal of Conflict Resolution* 39 (March 1994). On the role of new norms and rules for the system, which the great powers consciously established for the Concert of Europe when they and their statesman learned that the old ones did not work, see Paul Schroeder, *The Transformation of European Politics, 1763–1848* (Oxford: Oxford University Press, 1994). See also Schroeder's scathing review of the historical accuracy of realists' generalizations; Schroeder, "Neo-Realist Theory and International History: An Historian's View," *International Security* 19 (Summer 1994).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

MUCH ADO ABOUT IDEAS
The Cognitive Factor in Economic Policy

By JOHN KURT JACOBSEN*

Judith Goldstein. *Ideas, Interests and American Trade Policy*. Ithaca, N.Y.: Cornell University Press, 1993, 268 pp.

Judith Goldstein and Robert Keohane, eds. *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca, N.Y.: Cornell University Press, 1993, 295 pp.

International Organization 46 (Winter 1992). Special issue on Epistemic Communities. Edited by Peter Haas.

Kathryn Sikkink. *Ideas and Institutions: Developmentalism in Brazil and Argentina*. Ithaca, N.Y.: Cornell University Press, 1991, 255 pp.

THE revival of interest in the role of ideas in making policy choices is both startling and predictable. After a long period of indifference, and even hostility, toward ideational explanations in political science, the time for "ideas" has come around once again, especially in the field of international relations. It now seems obligatory for every work in international political economy to consider the "material power of ideas" as at least a mediating variable—even if only then to dismiss it.[1]

The last surge of studies focused on ideas occurred in the late 1960s, when many scholars, struck by the spectacular failure of rational and quantitative methods to anticipate the social upheavals of that era, challenged what they regarded as the analytical myopia of the "behavioral revolution" in the social sciences.[2] Readers familiar with that pe-

* The author would like to acknowledge comments by Charles Lipson, Duncan Snidal, Charles Glaser, Howard Margolis, Andy Moravscik, Alba Alexander, Michaela Dabringhausen, and participants in the Program on International Politics, Economics and Security at the University of Chicago.

[1] Jack Snyder, *Myths of Empire: Domestic Politics and International Ambition* (Ithaca, N.Y.: Cornell University Press, 1991), 30–32, 95–96; and Jeffry Frieden, *Debt, Development and Democracy* (Princeton: Princeton University Press, 1992).

[2] See Philip Green and Sanford Levinson, eds., *Power and Community: Dissenting Essays in Political Science* (New York: Random House, 1968); and David Easton's 1969 APSA presidential address, "The New Revolution in Political Science," *American Political Science Review* 68 (December 1969). The key critique of behavioral methods in foreign policy came from outside; see Noam Chomsky, *American Power and the New Mandarins* (New York: Vintage Press, 1967), 23–159. The era spurred interest in

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

riod and its preoccupations may experience a sense of déjà vu and of irritation at the air of discovery conveyed by some of the writings in this revival. "Almost any idea that has not been around for a while," Albert Hirschman impishly and accurately notes, "stands a good chance of being mistaken for an original insight."[3] Arguably, an interest in ideas never vanished, but was simply sidelined into the bailiwicks of "reflectivists," neo-Marxists, and other marginal figures in the discipline.[4]

After domestic turbulence and a costly Asian intervention subsided in the 1970s, interest-based and especially rational choice models held sway in the United States, giving little if any credence to ideas, which at best were deemed minor intervening variables. The motivation for the revival of ideas-focused research is twofold: a discontent with the inability of rational interest–based models to explain, let alone predict, policy outcomes (except by resorting to a host of auxiliary assumptions) and the evident onset of another era of profound socioeconomic change. The dissolution of the Soviet Union, the imperative everywhere to upgrade productive structures, and prospective shifts in trade arrangements all threaten to disrupt incremental patterns of change. It is no surprise that skeptical scholars are searching for analytic approaches to supplement, or even displace, dominant models.

This review article examines four volumes by mainstream scholars who argue that ideas exert independent influence upon economic policy choice, a notion suggested by Max Weber, who called ideas the "switchmen" on history's tracks, and by John Maynard Keynes, who referred to the influence of "defunct economists."[5] (Marx, except for a

---

the Frankfurt School, Wittgenstein, Foucault, and other philosophers. It is common to raid other disciplines for ideas; see Stephen Toulmin, *Human Understanding,* vol. 1 (Princeton: Princeton University Press, 1972).

[3] Hirschman, *The Rhetoric of Reaction: Perversity, Futility, Jeopardy* (Cambridge: Belknap Press of Harvard University Press, 1991), 29.

[4] Alexander Wendt objects to the term "reflectivist" because it smacks of radical relativism. He prefers the label "constructivist" because it denotes that the social construction of reality occurs with at least a tenuous link posited between word and object. See Wendt, "Anarchy Is What States Make of It: The Social Construction of Power Politics," *International Organization* 46 (Spring 1992), 393; and idem, "The Agent-Structure Problem in International Relations Theory," *International Organization* 41 (Summer 1987).

[5] "Not ideas, but material and ideal interests directly govern men's conduct. Yet very frequently 'world images' that have been created by ideas have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest"; Max Weber "Social Psychology of the World's Religions," in H. H. Gerth and C. Wright Mills, eds., *From Max Weber: Essays in Sociology* (New York: Oxford University Press, 1958), 280. Keynes mocked: "Practical men, who believe themselves to be quite exempt from any intellectual influence, usually are the slaves of some defunct economist. Madmen in authority who hear voices in the air are distilling their frenzy from some academic scribbler of years back." See Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt Brace and World, 1936), 383.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

single essay in Goldstein and Keohane, is hardly mentioned.)[6] Two volumes are collections: Judith Goldstein and Robert Keohane's *Ideas and Foreign Policy*, which is the product of several conferences on ideas and politics; and the special issue of *International Organization* on epistemic communities edited by Peter Haas. I confine my discussion to those essays that address the impact of ideas upon formal economic policy and thus omit topics such as the control of arms or pollution, even though these issue-areas certainly have an economic dimension. I also examine two book-length studies championing an ideas orientation: Goldstein's study of American trade politics and Kathyrn Sikkink's study of "developmentalism" in Argentina and Brazil.

This essay asks three questions: (1) Do the authors prove that ideas ever operate as more than "hooks" or intellectual rationales for material interests?[7] (2) Under what circumstances are ideas important intervening variables? (3) And can ideas-oriented approaches usefully expand our concepts of rational analysis and action beyond the usual procedures of toting up relative resource and force levels (and, accordingly, expect actors to do what they will to those who suffer what they must)? I argue that the authors have not succesfully made the case for the "power of ideas" —that ideas have a force of their own—but that they do demonstrate that an ideas approach is *always* a valuable supplement to interest-based, rational actor models.[8]

[6] John Hall acknowledges that Marx "did recognize the reality of belief." See Hall, "Ideas and the Social Sciences," in Goldstein and Keohane, 37. Engels called the notion that Marxism denies ideology any effectiveness in history "idiotic." For where "is there a superstructure, however airy and delicate its construction, which is not just as real as the foundation? . . . [A] foundation is not constructed as an end in itself but only so that a superstructure can subsequently be erected upon it. . . . [T]he superstructure is therefore that part of the building in which its meaning and purpose are accomplished. . . . [T]he social superstructure is that part of society in which historical actions take shape; but in order to be effective they have to operate on the basis and within the limits and capacities of the foundation. . . . Ideas and views cannot arise out of themselves and exist out of themselves but require a foundation in men's relation of work and exchange, upon which they constitute themselves, and in relation to which they change, partly in correspondence, partly in contrast." Cited in Max Adler's 1930 essay, "Ideology and Culture," in Tom Bottomore and Patrick Goode, eds., *Austro-Marxism* (Oxford: Oxford University Press, 1978), 254. See also Raymond Williams, "Base and Superstructure in Marxist Cultural Theory," *New Left Review* 82 (November-December 1973); and Nicholas Abercrombie et al., eds., *The Dominant Ideology Thesis* (London: George Allen and Unwin, 1980).

[7] Stephen Krasner is a strong adherent of the "hooks" view. "Ideas have not made possible alternatives that did not previously exist; they legitimated political practices that were already facts on the ground. Ideas have been one among several instruments that actors have invoked to promote their own mundane interests. . . . Only after ideas became embedded in institutional structures were they consequential for political behavior." See Krasner, "Westphalia and All That," in Goldstein and Keohane, 238, 257.

[8] Other works in this vein are Peter Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989); Anthony King, "Ideas, Interests and the Policies of Governments: A Comparative Analysis," *British Journal of Political Science* 7 (October 1979); Paul Egon Rohrlich, "Economic Culture and Foreign Policy: The Cognitive Analysis of Economic Policy Making," *International Organization* 41 (Winter 1987); Emanuel Adler, *The Power of*

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Moreover, the ideas literature draws the attention of students of international relations to an aspect of politics that has until recently been downplayed or even ignored in a field that has been inhospitable to domestic-level explanations: that is, legitimacy as a political resource.[9] The question of legitimacy focuses attention on "feedback loops" (to pick one possible term) between policymakers and mass publics without whose consent no policy is genuinely rational.[10] Parsimony is sacrificed when we burrow beneath elite levels, but the sacrifice appears reasonable in exchange for gains in explanatory depth.

The following sections examine the shortcomings of rational choice and interest-based models, assess the merits of several approaches to incorporating ideas into explanations, and, finally, introduce a means of conceptualizing ideas as malleable factors in power games that does not reduce them to mere hooks. An effort to avoid the "hooks" characterization has forced some writers into unnecessarily strained arguments. The theoretical snarl is that the strong case—that the "power of the idea itself explains its acceptance"—first must demonstrate that interests are interpenetrated by ideas, but then ideas must be shown to exert influence untainted by the interests they have just been shown to interpenetrate (Goldstein, 2 fn.1). The move is untenable and, in any case, is not required to establish the utility of an ideas-focused approach.

In this political economy–centered study an ideas approach is distinguished from related research on values, political culture, and psychological factors in that economic ideas are *explicitly* programmatic about the organization of production and the distribution of its bene-

Ideology: The Quest for Technological Autonomy in Argentina and Brazil (Berkeley: University of California Press, 1987); idem, "Cognitive Evolution: A Dynamic Approach for the Study of International Relations and Their Progress," in Adler and Beverly Crawford, eds., *Progress in Post-War International Relations* (New York: Columbia University Press, 1991); John S. Odell, *U.S. Monetary Policy: Money, Power and Ideas as Sources of Change* (Princeton: Princeton University Press, 1982); Ernst Haas, *When Knowledge Is Power* (Berkeley: University of California Press, 1990); R. J. Bullen, H. Pogge von Strandmann, A. B. Polonsky, eds., *Ideas into Politics: Aspects of European History, 1880–1950* (London: Croom Helm, 1984); Mary Furner and Barry Supple, eds., *The State and Economic Knowledge* (Cambridge: Cambridge University Press, 1990); Robert R. Reich, ed., *The Power of Public Ideas* (Cambridge, Mass.: Ballinger, 1988); and John Gerard Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36 (Spring 1982).

[9] Countering this, see Peter R. Gourevitch, "The Second Image Reversed," *International Organization* 32 (Autumn 1978); Robert Putnam, "Diplomacy and Domestic Politics: The Logic of Two Level Games," *International Organization* 42 (Summer 1988); Stephen Haggard, "Structuralism and Its Critics: Recent Progress in International Relations Theory," in Adler and Crawford (fn. 8); and, most recently, Peter B. Evans, Harold K. Jacobsen, and Robert Putnam, eds., *Double-Edged Diplomacy* (Berkeley: University of California Press, 1993).

[10] See Paul Pierson, "When Effect Becomes Cause: Policy Feedback and Political Change," *World Politics* 45 (July 1993).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

fits and burdens.[11] Like all the authors, I treat economic ideas as "shared beliefs" and so exclude idiosyncratic or leader-specific beliefs as explanations.[12] Hence, the assertion that sunspots create fiscal havoc is not an economic idea; that a high Yugoslav official one day decided and, in concert with Tito, other officials, and a receptive public went on to try to realize "Marx's free association of workers" is indeed an economic idea (Halpern, in Goldstein and Keohane,108).[13]

Political culture and values approaches, however, do address shared beliefs, particularly, how the lay public judges economic choices. So it is useful to distinguish between (1) what Rohrlich terms "consensual social beliefs," which shape the legitimate *ends* of economic activity, and (2) economic ideas, which are the *means* to reach socially approved ends.[14] The two categories are not mutually exclusive, and social beliefs need not literally be consensual to act as a constraint. Actors often try to alter ends to fit the means they favor. (Sikkink's analysis of Argentine political economy provides an example of a failed attempt.)

If markets were believed to be just, private losers would be of no concern to public policy. But the postwar "bargain of embedded liberalism" reconceptualized labor. No longer considered a dispensable factor of production, it became the key carrier of national prosperity (because "human capital" skills and Keynesian-fed consumption invig-

[11] On values, see Ronald J. Inglehart, *Culture Shift in Advanced Industrial Society* (Princeton: Princeton University Press, 1992); on political culture, see David Laitin, "Political Culture and Political Preferences," *American Political Science Review* 82 (June 1988); and John Street, "Political Culture: From Civic Culture to Mass Culture," *British Journal of Political Science* 24 (January 1994). On political psychology, see Fred Greenstein, *Personality and Politics* (Chicago: Markham, 1969). On psychoanalysis, see Harold Lasswell, *Psychopathology and Politics*, 2d ed. (Chicago: University of Chicago Press, 1977); and Paul Roazen, *Freud: Political and Social Thought* (New York: Alfred A. Knopf, 1968). On symbolism, see Murray Edelman, *The Symbolic Uses of Politics* (Urbana: University of Illinois Press, 1967). See, in addition, Robert Jervis, *Perception and Misperception in International Relations* (Princeton: Princeton University Press, 1977); and Deborah Welch Larson, *Origins of Containment: A Psychological Explanation* (Princeton: Princeton University Press, 1985).

[12] On leader-specific studies, see Ole Holsti, "Cognitive Dynamics and Images of the Enemy: Dulles and Russia," in Douglas Finlay, Ole Holsti, and Richard Fagen, *Enemies in Politics* (Chicago: Rand McNally, 1967); Holsti, "Foreign Policy Viewed Cognitively," in Robert Axelrod, ed., *Structure of Decision: The Cognitive Maps of Political Elites* (Princeton: Princeton University Press,1976); and Alexander L. George, "The Causal Nexus between Cognitive Beliefs and Decision-Making Behavior: The 'Operational Code' Belief System," in Lawrence Falkowski, ed., *Psychological Models in International Relations* (Boulder, Colo.: Westview Press, 1979).

[13] Nina Halpern, "Creating Socialist Economies: Stalinist Political Economy and the Impact of Ideas," in Goldstein and Keohane. The Yugoslav official was Milovan Djilas.

[14] These beliefs form an "economic culture," that is, a "definitive set of agreed-upon assumptions about how social economics functions and which social outcomes are desirable"; Rohrlich (fn. 8), 68–69. Furner and Supple (fn. 8) define "economic knowledge" as "those things that people 'know' in the essence of believing them," including "theories or assumptions about the ways in which different types of economic structures promote or hamper civic progress, equality, and welfare; the relations between economic expansion and individual liberty (and indeed the very nature of liberty) and the links that unite particular forms of government and prosperity" (p. 24).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

orates modern economies). The result was an affirmation of the need for state intervention to protect the populace from gross market inequities.[15] Hence, a social belief that citizens have a "right to make a living" clashes with a belief in market efficacy when the latter fails to deliver such opportunities; social democracies in effect are political systems that negotiate between these economic imperatives. Even "the most cynical view of public opinion," Furner and Supple observe, "grants that, in democracies at least, a lack of public support falling far short of organized opposition can still frustrate government policies."[16] Thus, deceit—or careful packaging of information—is the tribute elites often pay to the values they fear the public will act upon if well informed.[17] Instead of advocating upward redistribution of income, for example, a conservative party is more likely to hail the "magic of the marketplace" as the ideal means of achieving all social objectives.

Finally, economic ideas, even if Pareto optimal, are never "innocent" objective schemes devoid of distributions of gain and pain affecting the sponsors (although most contributors to the Haas volume seem to believe an idea is utterly neutral when championed by an epistemic community).[18] Projects are promoted by groups that inevitably inflect the ideas they adopt—whatever their origin—to serve their own needs. This is *not* to say ideas are entirely manipulable items that mean only what Lewis Carroll's Humpty Dumpty "pays" them to mean. They can go awry, boomerang, or be hijacked by opponents. Witness the myth of American MIA/POWs in Vietnam, an officially encouraged story that backfired on its encouragers and even became an ideological obstacle to the material interests of U.S. business, which managed with its lobbying power to overcome it only recently.[19] Economic ideas

[15] John Gerard Ruggie, "International Regimes, Transactions and Change: Embedded Liberalism in the Postwar Economic Order," *International Organization* 36 (Spring 1982); and Adam Przeworski and Michael Wallerstein, "Democratic Capitalism at the Crossroads," *Democracy* 2 (July 1982).

[16] Furner and Supple (fn. 8), 34. Likewise, Sikkink notes that the Reagan administration, despite a deep aversion to getting involved in such matters, could not entirely abandon a concern with human rights. See Sikkink,"The Power of Principled Ideas: Human Rights Policies in the United States and Western Europe," in Goldstein and Keohane, 166.

[17] As a special assistant in Washington, Daniel Ellsberg witnessed "a whole dimension of policy consideration that is often discussed but almost never written down for fear of leaks both within government and to the public." See Ellsberg, *Papers on the War* (New York: Simon and Schuster, 1972), 77–78.

[18] William Drake and Kalypso Nicolaidis hold that "the issue is not where community members sit but what they say"; Drake and Nikolaidis, "Ideas, Interests, and Institutionalization: 'Trade in Services' and the Uruguay Round," in Haas, *IO*, 39. It must be noted there are usually "many Pareto-optimal alternatives open to a society" and that it is a "value judgment" that a Pareto-optimal situation is superior to any number of suboptimal ones. Brian Barry and Russell Hardin, eds., *Rational Man and Irrational Society?* (New York: Sage, 1982), 141.

[19] H. Bruce Franklin, MIA *or Mythmaking in America* ((New York: Lawrence Hill, 1992).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

are always contested and ultimately are never settled, at least not by argument—as attested by the attack on Keynesianism and "social contracts" in the last decade and the hint of a comeback in this one.[20]

Rationalism and Its Discontents

The authors under review here launch a collective assault on the "actual softness that hides behind the seeming toughness of rational choice theories which see individuals as calculating interests" (John Hall, in Goldstein and Keohane, 39). Rational choice sees politics as individuals optimizing their situation under a given set of restraints—but which set of restraints? For economists "and political scientists captivated by their modes of thinking," Goldstein and Keohane charge, "ideas are unimportant or epiphenomena either because agents correctly anticipate the results of their actions or because some selective process ensures that only agents who behave as if they were rational succeed" (p. 4). With interests considered a given and logically prior to any beliefs held by actors, ideas tend to be relegated to the status of "unexplained variance."

But ideas may be important "precisely because unique predictions cannot be generated through an examination of interests and strategic interaction (utility functions and payoff matrices)"; because almost all "games with repeated play have multiple equilibria, the ideas held by players are often the key to a game's outcome" (Goldstein and Keohane, 17). Wendt, for example, champions "a cognitive, intersubjective conception of science in which identity and interests are endogenous to interaction," rather than the "microeconomic analysis in which identities and interests are exogenously given by structure and process is reduced to interaction within these parameters."[21] Most of the contributors to the edited volumes try to stake out a middle ground between rational choice proponents and those scholars lumped together as reflectivists (Goldstein and Keohane, 6; Haas and Adler, in Haas, 371).[22]

In a world "shrouded in uncertainty," interest maximization tells us very little about particular policy choices (Goldstein, 23). So "many

[20] See the pertinent essays in *American Prospect* 16 (Winter 1994); and Michael Stewart, *Keynes in the 1990s* (London: Penguin, 1993).

[21] Wendt (fn. 4), 393.

[22] Geoffrey Garret and Barry R. Weingast take a different position from the others in arguing that "the central concern of reflectivists—the social and institutional bases of shared beliefs—holds the key to overcoming the deficiencies of functional logic." See Garret and Weingast, "Ideas, Institutions and Interests: Constructing the European Community's Internal Market," in Goldstein and Keohane, 176.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

different types of activities can plausibly be construed as preferences structured by the desire to stay in office" (Sikkink, 18). The translation of "interest into appropriate policy (and preceding that, preference) is not unproblematic" (Goldstein and Keohane, 240). Many game situations yield multiple equilibria, and since actors cannot guarantee the consequences of their actions, it is the "*expected* effects of actions that explains them"(p. 13).[23] Because "preferences and payoffs are seldom obvious, the nature of the game is often obscure, and institutions are not fully responsive to new problems," so Haas and Adler assert that their epistemic approach provides "the necessary prerequisites for rational choice analysis, explaining where alternatives and payoffs come from" (Haas, 369).[24] Rational choice proponents would counter that they have devised ample means for incorporating ideas, that they deal with multiple equilibria with ingenious refinements, and that they cope with uncertainty through Bayesian updating.[25] But are these not precisely the type of auxiliary assumptions that Goldstein and Keophane cite as a weakness of rational choice? The criticisms leveled by the authors under review have merit, and it remains for rational choice practitioners to come to their own defense.

Individual preferences contain an interest component and a theory component: the latter is "knowledge of causal relationships," that is, an individual's beliefs "about how a particular arrangement will affect his or her interests. They will be quite sure of their interests but less so about how alternative constitutions will help or hurt them—so the more complex society becomes the more uncertain the individual becomes, hence the greater need for rational discourse."[26] Scholars differ over how to meet this demand for "rational discourse"—whether by an enhanced rule by specialized elites (or those who make use of them) or by fostering better informed, more conflictual democratic debates between policymakers, various elites, and the public.[27] Apart from differing over prescriptions to be drawn from this opaque state of affairs, the

[23] See also Jon Elster, ed., *Rational Choice* (New York: New York University Press, 1986), 1–27; and idem, "Further Thoughts on Marxism, Functionalism and Game Theory," in John Roemer, ed., *Analytical Marxism* (Cambridge: Cambridge University Press, 1986).

[24] Peter Haas and Emanuel Adler, "Conclusion: Epistemic Communities, World Order, and the Creation of a Reflective Program," in Haas, *IO*.

[25] An anonymous referee raises this objection.

[26] John Dryzek, "How Far Is It from Virginia and Rochester to Frankfurt? Public Choice as Critical Theory," *British Journal of Political Science* 22 (October 1992), 407–8. He discusses the work of Viktor Vanberg and James Buchanan.

[27] See E. E. Schattschneider, *The Semi-Sovereign People* (New York: Holt, Rinehart and Winston, 1960); and Jurgen Habermas, *Knowledge and Human Interests* (Boston: Beacon Press, 1973).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

authors try to provide evidence about the conditions under which reliable claims can be made about causal connections between ideas and policy outcomes.

Ideas, Ideologies, and All That

Goldstein and Keohane divide ideas into *principled beliefs,* which specify "criteria for distinguishing right from wrong, and just from unjust," *causal beliefs,* which "derive authority from shared consensus of recognized elites," and *worldviews* (pp. 8–11). Most economic ideas incorporate all three aspects, as in the cases of supply-side Reaganomics and Thatcher's "enterprise culture"; trouble is especially likely to arise when causal beliefs clash with principled beliefs, as is amply attested in recent memoirs.[28] Ideas influence public policy, according to Goldstein and Keohane, (1) when "the principled or causal beliefs they embody provide road maps that increase actors' clarity about goals or ends-means relationships," (2) when they become "focal points that define cooperative solutions or act as coalitional glue," and (3) when they become embedded in political institutions.

Road maps link "policies to a constellation of interests." One can usually reach a destination by several routes. Although a nation may need universal health coverage, a competitive economy, and a vibrant international trading order, an account of the interests immediately involved is usually not sufficient to explain the content of competing options, let alone the policy outcome. Different constellations of interests can alter not only the route chosen but also the destination, the conveyances, and the justifications advanced.[29] Sometimes, no political headway can be made until a coalition sheds and/or acquires different members or unless the original members all modify their views to make them compatible. Ideas serve as "focal points" that enable interested actors or policy entrepreneurs to bring about this reordering.[30]

Economic ideas offer a relatively inexpensive way to gain consent

[28] On Britain, see Ian Gilmour, *Dancing with Dogma* (London: Simon and Schuster, 1992); on the U.S., see David A. Stockman, *The Triumph of Politics* (New York: Harper and Row, 1986).

[29] James A. Kurth, "The Political Consequences of the Product Cycle," *International Organization* 33 (Winter 1979); Peter Gourevitch, *Politics in Hard Times* (Ithaca, N.Y.: Cornell University Press, 1986); Thomas Ferguson, "From Normalcy to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression," *International Organization* 38 (Winter 1984).

[30] Policy entrepreneurs do not descend from Mount Olympus; they are usually interested actors who benefit when their ideas are adopted. Indeed, Sikkink refers to Premiers Frondizi in Argentina and Kubitscek in Brazil as policy entrepreneurs. See Sikkink, *Ideas and Institutions,* 245.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

and mobilize support.[31] By persuading players to accept a "definition of the situation," one gains some control over the outcomes because how a problem is defined determines the nature of the solution.[32] In influencing how groups relate their interests to shifting circumstances, ideas can unify or divide groups. They can become "constitutive of interests" and even trigger a change of the context, which is comprised of both intellectual precepts and institutional arrangements and procedures that determine the limits of permissible political action.[33] Hence, we should distinguish not only "between different types of interests, but among different social arrangements that generate different belief systems and different structural possibilities, [and which produce] a set of socially created definitions that make one or the other goal appear rational and desirable."[34] This context itself can become the high stakes in political contests among groups promoting economic ideas (few, if any, authors under review here recognize this aspect, however).[35]

Kuhn's work is the touchstone for all these depictions of economic ideas.[36] Briefly put, a scientific paradigm is an orthodoxy that presupposes a view of reality which in turn directs and constrains research; it does this by setting the conceptual terms by which policymakers interpret reality. A paradigm (a "universally recognized achievement that *for a time* provides model problems and solutions") need not and cannot explain all the facts before it. This implies that paradigm shifts are inescapably political; indeed, there are those who argue that on occasion scientists, too, engage in lobbying and stealthy tactics to insinuate their

[31] Note Albert Hirschman on the dangers of *currozione* "by which [Macchiavelli] meant . . . the loss of public spirit." Hirschmann, "How the Keynesian Revolution Was Exported from the United States and Other Comments," in Hall (fn. 8), 357, 354.

[32] "He who determines what politics is about runs the country, because the definition of the alternatives is the choice of conflicts, and the choice of conflicts allocates power." Schattschneider (fn. 27), 66.

[33] "Epistemologically, the world and our representations of it are not isomorphic; our concept of reality is mediated by prior assumptions, expectations, and experiences. There is no such thing as the direct and true apprehension of reality itself," writes Haas, *IO*, 21. This is the litany across the hermaneutic fields. As Robert Wallerstein writes, "The realities with which psychoanalysis concerns itself . . . are created, evolved and constructed realities. . . . The psychological impact of reality on the individual varies according to what a human being makes of it, consciously or unconsciously. There is no objective reality per se that carries psychological weight of its own." See Wallerstein, "Psychoanalytic Perspectives on the Problem of Reality," *Journal of American Psychiatric Association* 21 (Spring 1973), 7.

[34] Fred Block and Margaret Somers, "Beyond the Economistic Fallacy: The Holistic Science of Karl Polanyi," in Theda Skocpol, ed., *Vision and Method in Historical Sociology* (Cambridge: Cambridge University Press, 1984), 62.

[35] An exception is Charles S. Maier, *In Search of Stability: Explorations in Historical Political Economy* (Cambridge: Cambridge University Press, 1987).

[36] Thomas Kuhn, *The Structure of Scientific Revolutions* (Chicago: University of Chicago Press, 1962). See Peter Euban's essay on Kuhn's impact on political science, in Green and Levinson (fn. 2).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

candidate into power.[37] Paradigms change when anomalies accumulate to the point of throwing the reigning model into crisis, which can continue until a fully articulated successor is backed by the community.

This account fully parallels the explanatory dynamics of the economic ideas approaches. Hence, it comes as no shock that the Chinese, even in the absence of Soviet occupation troops, chose Stalinist political economy; they required a credible and proved framework that balanced their need to retain power with their need for economic growth (Halpern, in Goldstein and Keohane, 98). Likewise, former Soviet bloc regimes have recently rushed to implement a tantalizing textbook version of free enterprise that seemed well proved and foolproof.[38]

The authors reviewed here turn to ideas to explain choices, especially those made under conditions of uncertainty and within margins set by material constraints.[39] Indeed, the influence of ideas is posited to vary with the degree of uncertainty that actors encounter in a policy realm; that is, the greater the uncertainty, the more influential is the role of ideas. While rejecting the suggestion that ideas alone create interests, the authors do argue that material constraints are subject to the ideas that actors have about them. Ideas and interests are "both concepts and therefore are ideas" because "interests are perceived through the lenses of the existing ideologies in various historical settings (Jackson, in Goldstein and Keohane, 112).[40] A favorite example is the "multiplier effect," which, viewed through pre-Keynesian lenses, makes as little apparent sense as saying two plus two can equal five or more.

Still, an economic idea must appeal to the self-interest of Adam Smith's butchers, brewers, and bakers, and sooner or later prove itself. Economic ideas always portend new distributional effects, and all actors—politicians, organized interests, the mass public—are cognizant of that fact. The accuracy of their assessments matters less than the confidence actors have in their own judgment and in that of the authorities. Legitimacy is an important factor in two senses: in respect to

[37] Paul Feyerabend makes this case; Feyerabend, *Against Method* (London: Verso, 1975). On political implications, see J. K. Jacobsen and Roger Gilman, "The Dialectical Character of Paul Feyerabend's Philosophy of Science," *Nature, Society and Thought* 4 (January–April 1991).

[38] See Bronislaw Oyrzanowski and Magda Palecny-Zapp, "From One Economic Ideology to Another: Poland's Transition from Socialism to Capitalism," *International Journal of Politics, Culture and Society* 7, no. 1 (1993).

[39] On ideologies as "maps of problematic social realties" that "so construe [these realities] as to make it possible to act purposefully within them," see Clifford Geertz, "Ideology as a Cultural System," in *The Interpretation of Cultures* (New York: Basic Books, 1973), 220.

[40] Robert H. Jackson, "The Weight of Ideas in Decolonization: Normative Change in International Relations"; Sikkink, 9; Haas (fn. 8), 2; Goldstein, 3.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

what is permissible within the range of standard economic knowledge and in respect to what is deemed legitimate in terms of the public's interests and values.

The Political Power of (or behind) Ideas?

Peter Hall's recent volume on Keynesian policy shifts seeks to specify the conditions under which ideas acquire force. He argues that ideas "did not simply reflect group interests or material conditions"; rather, they "had the power to change the perceptions a group had of its own interests, and they made possible new courses of action that changed the material world itself."[41] Congruence between ideas and circumstances is important, and dramatic changes in circumstances, such as war and depression, affect the pertinence of particular ideas. Especially important is the congruence between these ideas and the needs of elites who have to "solve the puzzle of coalition formation."[42]

Contributors to the Hall volume examined how ideas affect coalition building and how "administrative-political processes" affect the selection of new economic ideas, with the proviso that "without the confirmation of socio-political forces, innovation would be short lived."[43] Most important then is not an idea's cogency—its intrinsic force, logic, and viability—but that it serves to reconcile the interests of elites active in the institutions of a given state so that they can form a coalition capable of enacting it. (This is the idea as "focal point.")[44] Apart from Hirschman's essay, and additional remarks by Hall about "moral visions" forging a sense of collective national purpose, Hall's volume consists not so much of a "power of ideas" argument as of an eclec-

[41] Hall, "The Politics of Keynesian Ideas," in Hall (fn. 8), 369.

[42] Ibid., 370.

[43] Peter Gourevitch, "Keynesian Politics: The Political Sources of Economic Policy Choices," in Hall (fn. 8), 73. See also Margaret Weir, "Ideas and The Politics of Bounded Innovation," in Sven Steinmo, Kathleen Thelan, and Frank Longstreth, eds., *Structuring Politics: Historical Institutionalism in Comparative Analysis* (Cambridge: Cambridge University Press, 1992). Bounded innovation characterizes "institutions whose existence channelled the flow of ideas, created incentives for political actors, and helped to determine the political meaning of policy choices" (p. 189). An earlier formulation appears in Claus Offe,"The Theory of the Capitalist State and the Problem of Policy Formation," in Leon Lindberg et al., eds., *Stress and Contradiction in Modern Capitalism* (Lexington, Mass.: D. C. Heath, 1975). Weir suggests that "economic coalition arguments overlook the more independent role that new ideas can play in causing existing groups to rethink their interests and form alliances" (p.190). The point is worth exploring although we lack any examples of this occurring in the absence of the uptake of similar (potentially threatening) ideas by competitors.

[44] "Policy ideas matter because they provide opportunities for elites to pursue their interests in more effective ways. This may be the most profound way in which ideas matter." G. John Ikenberry, "Creating Yesterday's New World Order: Keynesian 'New Thinking' and the Anglo-American Postwar Settlement," in Goldstein and Keohane, 84.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tic though effective blend of elite and institutionalist analyses. The upshot is bromidic: the more powerful the sponsors of ideas, the more powerful the ideas. Do the authors under review venture any further?

In a meticulous study of American trade politics Judith Goldstein strives to make a different case, that the "power of the [economic] idea itself explains its acceptance" (p. 2 fn.1). Yet she nonetheless undermines her bold thesis by constant retreat into a political sponsorship argument. "Objectively 'optimal' ideas with which leaders can attain their political goals may exist," she writes, "but their adoption is contingent on their being embedded in some politically salient theory or analysis"—salient , that is, to "well-placed" elites (p. 2). Goldstein may also exaggerate "the puzzle of the paradox of a history of American trade policy that cannot easily be explained by either of the dominant modes of analysis—structural realism and domestic interest group politics" (p. 237). But neither is this apparent paradox so difficult to explain by interest-based paradigms; many such explanations are plausible and no less effective in accounting for policy shifts.[45] Still, Goldstein's book enriches the existing explantions.

More defensible is her assertion that "beliefs about causal connections between interests and policies are at least as important as the nature of the interests themselves," which recalls W. I. Thomas's comment that anything defined as real will be real in its consequences (p. 237). American trade policy is a story of how the "protectionist vision and its accompanying institutions biased all political activity," yet it is also quite rational that U.S. policy should have moved from a protectionist past to advocacy of trade that is both free and "fair." This was a matter of shrewd "interpretations" by state and economic elites regarding their own interests and those of the groups they needed to appease and recruit to achieve their ends.[46] There is no discernible paradox here—unless it is the familiar one that free trade, like the free market, requires state intervention if it is to work.[47]

Goldstein sees this world "clouded with uncertainty" as policy entrepreneurs cannot with any assurance select a preferred course. In fact,

[45] A very good recent example is Daniel Verdier, "The Politics of Preference Formation: The United States from the Civil War to the New Deal," *Politics and Society* 21 (December 1993).

[46] Ellis S. Krause and Simon Reich argue that the nature and competitiveness of a particular sector influences both the extent and the exact form of aid that the executive will extend. They find that the U.S. "free but fair" trade fluctuations in policy make perfect sense for everyone but labor. Krause and Reich, "Ideology, Interests and the American Exports: Toward a Theory of Foreign Competition and Manufacturing Trade Policy," *International Organization* 46 (Summer 1992).

[47] Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1957); and Eric J. Hobsbawm, *Industry and Empire* (London: Penguin, 1971).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

however, this plight is rare. Policy entrepreneurs view economic ideas as conscious projects and are on the lookout for allies with shared interests. Seen in this way, an idea is something that can be operationalized and then evaluated. The problem with this analysis is that interests are seen as so institutionalized in an idea such as Keynesianism or protectionism that the agents become thoroughly wedded to the "power of ideas" and thus unable to consider new options. No doubt institutions can dictate policy, "even in the face of declining elite consensus and divergent social interests" (Goldstein, 243). But they can rarely sustain it for very long, at least not without bayonets. There is a danger in casting this "lag" phenomenon in terms of an ideas argument, though: one can all too quickly lose sight of the material factors driving the success of an economic idea and instead fetishize the idea itself. This tendency is endemic in ideas approaches.

Goldstein and Keohane certainly "recognize that ideas and interests are not phenomenologically separate"; but their guiding question concerns "the extent to which variations in beliefs, or the manner in which ideas are institutionalized in societies, affect political action" (p. 26). It is precisely in the pursuit of this purpose where slips can occur and lead to unwarranted claims for the force of ideas. After all, institutionalized ideas can persist despite changing circumstances and may also be explained as bureaucratic inertia, institutional sclerosis, or political ploy (stonewalling) or even be justified up to a point as sober conservativism. Political actors can also invest institutionalized ideas with new meanings in response to environmental exigencies.[48]

Policymakers "rely on causal models in making policy choices," and policy entrepreneurs "depend on ideas about how to translate these forces into a political and economic program." However, these cognitive maps must meet stringent interest-bound criteria so that even "efficiency is valued only to the extent that the means to a goal adhere to existing ideas, values, and institutions" (Goldstein and Keohane, 255). An example is Maier's study of industrialists contriving to "redefine [a national commitment to democracy] to square with the criteria of optimality and efficiency" in the highly undemocratic realm of the factory system.[49] However, these maps do not always originate with elites, nor are elites always united behind one version.

Goldstein argues that international forces are interpreted through

[48] See the case studies in Daniel T. Rodgers, *Contested Truths: Keywords in American Politics since Independence* (New York: Basic Books, 1987).

[49] Maier (fn. 35), 45; John Kasson, *Civilising the Machine* (New York: Vintage, 1981); and David F. Noble, *Forces of Production* (New York: Knopf, 1984).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

institutional lenses. "If insufficient attention is paid to the agent who interprets changes in domestic group demands and in the national interest—often through institutionally biased lenses—the essence of the politics of making economic policy may be overlooked" (pp. 240–41). Goldstein has surely identified a vital element in policy conflicts, but her narrow focus on formal actors underplays the role of informal actors and of "mass publics" in recognizing and and even using economic ideas and environmental changes as pieces in a power game. All these actors are well aware that the rules which accompany a victorious economic idea will constrain future choices, as exemplified by the ferocity of the recent NAFTA debate and by the ongoing debate over national health care. If the citizenry understands the material interests at stake in a technical issue, even the mystique of specialist expertise can be dispelled.[50] Organized interests, and even so-called diffuse actors (motivated to organize by the salience of the issue), customarily try to gain the interpretive upper hand, propagate their views, and seek the most sympathetic decision-making sites (congressional committees, the executive branch, the courts, regulatory agencies, and so forth) for determining their fates.[51]

According to Sikkink, *economic ideas are most aptly treated as "clusters of ideas/interests"* (Goldstein and Keohane, 162). This can be a slippery concept, however. "It is not markets but ideas that establish the rules of the game, that demarcate for policy makers the proper forms of new policies and that privilege particular constituencies," Goldstein states, yet four pages later we are told that markets "define a viable policy space" (pp. 238, 242). The market apparently is an objective force that defines a policy space even though it is also subject to ideas and can under certain circumstances become a locus for a struggle over the rules. Although this formulation makes a good deal of sense, Goldstein never convincingly demonstrates her thesis that "to have causal weight, ideas must have an independent effect on policy, apart from the interests of actors who defend them" (p. 252). Rather, the impression conveyed is that all that is solid melts into ideational air, and vice versa, as it suits the needs of the analysis. By contrast, Garret and

[50] Paul Goodman's comment remains apposite: the average citizen may not be equipped to "judge the substantive issues relevant to the vast sums for research and development; medicine, space exploration, and technical training; *but it would be helpful if he understood the interests and politics involved.*" Goodman, *People or Personnel and Like a Conquered Province* (New York: Vintage, 1969), 315; emphasis added.

[51] For an example regarding nonproliferation, see J. K. Jacobsen and Claus Hofhansel, "Safeguards and Profits: Civilian Nuclear Exports, Neo-Marxism and the Statist Approach," *International Studies Quarterly* 26 (March 1984).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Weingast argue plausibly that certain "ideas have properties that may lead to their selection by political actors and to their institutionalization and perpetuation. It is not something intrinsic to them that gives them their power" (Goldstein and Keohane, 178). In their study of the Single European Act in the Goldstein and Keohane volume there is an unusually acute and sustained analytical sense of the material underpinnings of ideas.

Ideas as Weapons

Are there situations where economic ideas that cause material distress are chosen for the sake of other goods or long-term ends?[52] The most obvious cases are the socialist and former socialist economies, where Stalinist central planning had become the paradigm for a political economy, created a set of social interests favoring it, and afterward, Halpern argues, "exerted an independent influence" (in Goldstein and Keohane, 92–93). The Chinese Communist Party embraced Stalinist political economy as its guide for economic development.[53] Yugoslavia's shift from Stalinist centralism toward worker management illustrates that not just any viable idea will do but only those that balance the economic and legitimation requirements of a political regime at a particular juncture. It is by no means obvious that the adoption of these economic ideas ever conflicted with the national interests of either China or Yugoslavia. Halpern also overstates the "imperviousness" of Soviet ideology. Scholars have long noted that sincere Soviet scientists used the principles of dialectical materialism to legitimate their need for flexible research programs and to make credible scientific contributions.[54] The adaptation of ideologies, especially "official" Marxist thought, to changing circumstance or to new political goals is almost as familiar a phenomenon as ideological lag or Gulag dogma-

[52] The most glaring example of the triumph of ideology over economic sense was the Nazi holocaust; from a purely cold-blooded economic view, it was inherently wasteful and diverted valuable resources from the war effort. However, this was a ghastly victory of racial ideology, not of one economic idea over another, which is the concern of this essay.

[53] On rationales used to justify central direction as a means of achieving the official goal of worker rule, see Kendall Bailes, *Technology and Society under Lenin and Stalin, 1917–1941* (Princeton: Princeton University Press, 1978).

[54] See Loren Graham, *Science and Philosophy in the Soviet Union* (New York: Vintage, 1974); George Fisher, ed., *Science and Society in Soviet Society* (New York: Atherton Press, 1967): David Joravsky, *Soviet Marxism and Natural Science* (London: Routledge and Kegan, 1961); and Thomas Baylis, *The Technical Intelligentsia and the East German Elite: Legitimacy and Social Change under Mature Communism* (Berkeley: University of California Press, 1974).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tism. Even Marxism-Leninism can be an extremely supple interpretive method when authorities permit.

Thus, a recent article attributes the Soviet foreign policy shift in the 1980s to a "changing external environment and the advent of a reformist general secretary [who] created a series of policy windows through which aspiring policy entrepreneurs jumped."[55] The consequent benign interpretation of American motives, however, was not the invention of policy entrepreneurs; it was a revival of one among several Soviet policy currents invoked whenever external events (Nazi invasion) or internal pressures (industrial modernization/more consumer goods) rendered it useful for justifying desired policy changes to domestic and foreign audiences.[56] If a relevant audience is adamantly unreceptive—for example, if the U.S. will have no truck with the "evil empire"—the stratagem will of course flop.[57] The extent to which ideologies are politically pliable is limited by circumstances, interests, and social beliefs.[58] Just as the Chinese in the 1950s could claim that "New Democracy was pre-socialist," leaders in newly industrializing countries may explain to disgruntled Yanks that their managed market systems are in effect "pre–free market."

Garret and Weingast are persuasive in their suggestion that

> the influence of focal points and shared belief systems is likely to vary significantly with the structure of given strategic interactions. The lesser the distributional asymmetries between contending cooperative equilibria and the smaller the disparities in the power resources of actors, the more important will be ideational factors. Similarly the effects of focal points will increase with the actors' uncertainty about the consequences of agreements or about their relative capabilities. Thus both power and ideas can be expected significantly to influence the resolution of multiple equilibria problems, but the relative explanatory power of each is likely to vary significantly with the context. (p. 186)

[55] Jeff Checkel, "Ideas, Institutions, and the Gorbachev Foreign Policy Revolution," *World Politics* 45 (January 1993), 273.

[56] Ibid., 275. See Fred Halliday, *The Making of the Second Cold War* (London: Verso, 1985), 11. Mikhail Gorbachev interestingly invokes Lenin as a shrewd interpreter of trends and one capable of adjusting as needed. Gorbachev, *Perestroika* (New York: Harper and Row, 1987). For an internal view of Soviet flip-flops on foreign policy, see Arkady N. Shevchenko, *Breaking with Moscow* (New York: Ballantine, 1985), 77–79, 108–9, 120.

[57] Thomas Risse-Kappen makes an argument similar to Checkel's about how transnational elites influence one another across the iron curtain regarding arms control, and he likewise does not pin down a causal influence upon policy. See Risse-Kappen, "Ideas Do Not Float Freely: Transnational Coalitions, Domestic Structures, and the End of the Cold War," *International Organization* 48 (Spring 1994).

[58] Halpern does observe such flexibility in China, where there were "distinct limits to the ideological reformulations that have been permitted, for example, the debate must still revolve around the proper combination of plan and market, the proper role of the law of value , and new forms of management rather than ownership"; in Goldstein and Keohane, 104.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Nonetheless, one must not overlook moments when an idea ignites a struggle over control of this context, when politics becomes "a contest for the authoritative values that orient society. Here the control of mass media, the status and message of organized religion, the shaping of markets and consumption, the *correct* interpretation of poverty at home and revolution abroad become crucial political concerns."[59] The content of an idea alters over time or in the course of conflicts and compromises. As Goldstein reminds the reader, the meaning of so apparently unambiguous a term as "free trade" is not the same in 1992 as it was a century earlier.

The Importance of Being Epistemic

In the *International Organization* special issue on "epistemic communities" (ECs) Peter Haas and Emanuel Adler write that just as "structures are constituted by the practice and self-understandings of agents, so the influence and interests of agents are construed and explained by political and cultural structures" (p. 371). This "structurationist approach" echoes an earlier analyst who complained that the "materialist doctrine concerning the changing of circumstances . . . forgets that circumstances are changed by men and that it is essential to educate the educator himself."[60] However phrased, the dialectical point is worth making.

Haas and Adler argue that expectations "come from interpretive processes involving political and cultural structures, as well as from institutions" (p. 371). This is a necessary addition to institutionalist models. Certainly, "the institutional framework provides the context in which groups and individuals interpret their self-interest and thereby define their self-interest."[61] But this formulation confers all power on the institutional framework and leaves no space for innovation or ingenuity on the part of actors. If we "ground these variables in the [institutional] context in which they are defined and interpreted," we find ourselves in conceptual quicksand when external change and/or internal challenges throw this context into flux.[62]

Haas and Adler, like others who take ideas approaches, extend the inquiry beyond the borders of institutions and supply sound reasons

[59] Maier (fn. 35), 16.

[60] Karl Marx and Frederick Engels, *The German Ideology* (New York: International Publishers, 1957), 120.

[61] Sven Steinmo, "Political Institutions and Tax Policy in the United States, Sweden, and Britain," *World Politics* 41 (July 1989), 501.

[62] Ibid., 502.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

for doing so. They contend that "the manner in which people and institutions interpret and represent phenomena and structures makes a difference for the outcomes we can expect in international relations." The drawback is that they want to locate this interpretive power almost exclusively within epistemic communities, which are networks of knowledge-based experts who have "(1) a shared set of normative and principled beliefs, (2) shared causal beliefs . . . [that] serve as the basis for elucidating the multiple linkages between possible policy actions and the desired outcomes, (3) shared notions of validity—that is intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise, (4) a common policy enterprise, that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence."[63] Ruggie, the originator of the term, says that epistemic communities "consist of interrelated roles which grow up around an episteme; they delimit, for their members, *the* proper construction of social reality."[64]

For their part, Adler and Haas advocate the need for the "political infiltration of an epistemic community into governing institutions" to promote their cause (pp. 27, 374). In fact, however, their definition also snugly fits the Central Intelligence Agency, which is a "transnational knowledge-based network" if there ever was one, although they seem to believe what they are offering is a spruced-up version of Mannheim's free-floating intellectuals.

To take the comparison further, congressional hearings on CIA director-nominee Robert Gates disclosed not only that the Agency has made major errors—a fallibility that ought to give both clients and the public pause—but also that it tailored information to suit the views of clients, which, in light of the Pentagon Papers, seems less an aberration than an organizational tradition.[65] Regarding Vietnam, policymakers were unwilling to believe pessimistic CIA appraisals, and the

[63] Haas and Adler's "limited constructivist view" is that although "no description can exist independently of the social circumstances under which that description is made," some consensus is possible; hence, "correct beliefs may evolve over time, as progressively more accurate characterizations of the world are consensually formulated." This stance parallels that of Charles Sanders Peirce. See Habermas's pertinent critique (fn. 27), 91–141.

[64] John Gerard Ruggie, "International Responses to Technology," *International Organization* 29 (Summer 1975).

[65] Melvin Ott, "Shaking up the CIA," *Foreign Policy* 93 (Winter 1993–94), 42. See Hans Morganthau's prescient article on the dangerous adaptation of intelligence to preconceptions; Morganthau, "Vietnam and the National Interest," in Marvin E. Gettleman, ed., *Vietnam: History, Documents and Opinions* (Greenwich, Conn.: Fawcett, 1965), 374.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

intelligence community itself soon split into factions. Why should experts located outside these policy circles fare any better when bearing bad tidings or views that conflict with the inclinations of policymakers?

Haas and Adler assume that if "confronted with anomalies that undermine their causal beliefs, [epistemic communities] would withdraw from the policy debate, unlike interest groups." This belief ignores a rather well-known intellectual inclination to resort to ad hoc statements or denial to defend cherished models (p. 18). (After all, both Milton Friedman and Karl Marx can claim with some justification that their ideas were never properly carried out.) It is also difficult to determine the flow of influence in these epistemic analyses. If "economic actors begin with an economic situation to which they link a policy preference, and then seek out a political strategy to make that preference prevail," and "politicians begin with a political situation for which they need support, and then seek economic policies which provide that support," then epistemic communities begin with a diagnostic model and seek out political and economic actors who need help to construct support for their own preferences.[66]

Defining a community is also a problem, as definitions are often disturbingly elastic. One contributor begins by stating that central bankers are not an epistemic community, and concludes by flirting with the proposition that bankers may someday emerge from their crass chrysalis to "become a full-fledged epistemic community" (Kapstein, in Haas, 266, 285).[67] Granted, a lot of political learning is going on. But if the decision makers whom members of an epistemic community advise turn out to be themselves, then "epistemic community" simply collapses as a concept. Haas is encouraged by the increasing number of scientific staff in government and the "increasing deference paid to technical expertise and in particular to that of scientists" (p. 11). But how is this alleged deference to be reconciled with so extraordinary an event as Reagan's Strategic Defense Initiative (unless we declare Edward Teller an epistemic community)?[68] Moreover, public attitudes toward experts are much more ambivalent than Haas suggests—and wisely so, because the historical record on experts does not compare all that well with other citizens with regard to moral courage,

[66] Gourevitch, in Hall (fn. 8), 89.

[67] Ethan Barnaby Kapstein, "Between Power and Purpose: Central Bankers and the Politics of Regulatory Convergence," in Haas, *IO*.

[68] See William J. Broad, *Teller's War* (New York: Simon and Schuster, 1992).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

prudence, foresight, or civic virtue.[69] In any case, data are usually ambiguous and scientists are usually divided over public issues, concerning, for example, the environment and energy.[70]

The epistemic approach is a model of elites by elites and for elites. Moreover, its descriptive tasks tend to slide into prescriptive ventures,[71] which *is* problematic because the approach is driven by a dubious faith in the critical capacities of a community of like-minded experts. There is evidence that experts who are closest to controversial technological issues tend on the whole to be less critical than they should be. More physicists than biologists consider recombinant DNA research risky, and more physicists than biomedical scientists consider nuclear plants safe. One researcher ascribes this phenomenon to "the influence of social networks within disciplines rather than to expertise" itself; and the obvious inference then is that a community of any kind is unlikely to put a premium on dissent within its ranks.[72] This suggestion may annoy some scientists; the lay citizen, however, should ponder the proposition that it is not an epistemic community per se but rather the *public* clashes among "communities" from different scientific disciplines that yield the most valuable and self-critical input into policy decisions.[73]

Epistemic analysis ultimately is also a sponsorship argument regarding pedigreed groups who "create reality, but not as they wish." One may readily concede Haas and Adler's claim that where policymakers have no strong preconceived views, and the issue is a first foray, then these bands of experts will exercise a lot of influence (pp. 380-81). Stating the proposition another way: if the issue does not matter very much, then experts do—not an appealing analytical agenda.

Finally, the influence of an epistemic community "depends on the level of uncertainty" in a policy realm. Thus, if uncertainty is high, the community presumably exerts an influence akin to a physician prescribing a remedy the patient is unable to evaluate. But more typically

[69] See Leonard A. Cole, *Politics and the Restraint of Science* (Totowa, N.J.: Rowman and Allanheld, 1983); Charles Perrin, *The Fail-Safe Society* (Berkeley: University of California Press, 1991); and Ellen W. Schrecker, *No Ivory Tower: McCarthyism and the Universities* (New York: Oxford University Press, 1986).

[70] Haas recognizes that "choices remain highly political in their allocative consequences," especially "where scientific evidence is ambiguous and the experts themselves are split into contending factions"; in Haas, *IO*, 11. But what is rare in policy debates is scientific unanimity, not divided opinions.

[71] Peter Haas distinguishes his "internally defined validity test" from Ernst Haas's requirement that an epistemic community "professes beliefs in extracommunity reality tests"; in Haas, *IO*, 17 n. 39.

[72] Allan Mazur, *The Dynamics of Technical Controversy* (Washington D.C.: Communications Press, 1981), 81–82. See also Bruno Latour, *Science in Action* (Cambridge: Harvard University Press, 1987).

[73] This accords with the spirit of Geertz's comment (fn. 39) that "competing ideologies are at least as important a check on ideological claims" as is scientific analysis (p. 230).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

political actors turn to epistemic communities "whose ideas implicitly align with their own preexisting political agenda and will help them further it," so that those "communities expressing ideas close to the mainstream have a greater propensity to acquire influence" (Haas, 381). Or as Mayor Daley Sr.'s cronies succinctly put it: "We don't want nobody nobody sent."[74]

In steering clear of epistemic claims in his analysis of Bretton Woods, Ikenberry is an interesting exception. In 1944 change was necessary, and American and British elites, who shared underlying interests, were "interested in building institutions that have a measure of legitimacy." Politically, neither state could tolerate old deflationary dogma, and free trade was quite compatible with expanded control of domestic economies (in Haas, 294).[75] Policymakers were positioned to compromise because, as other analysts note, they used ideas to highlight "the potential gains that may accrue from exchange, especially in [this situation] in which some change in behavior must occur before the gains can be captured" (Goldstein and Keohane, 204). Similarly, Garret and Weingast argue that the principle of mutual recognition in the European Community was, and indeed had to be, "consistent with the desire of the major political and economic actors in Europe to liberalize trade." But Ikenberry usefully points beyond this necessary but insufficient condition: "What ultimately mattered to the ratification of the Bretton Woods agreement was not that it was based on policy ideas advanced by an expert community but, rather, that the political ideas resonated with the larger political environment" (p. 291). By "resonated" he presumably means that these ideas satisfied or promised to satisfy certain minimal standards of distributive fairness in the relevant polities.

Kathryn Sikkink cites the cautionary example of an Argentine policy functionary whose technocratic frame of reference made him utterly insensitive to how his actions and words were eroding political support (pp. 236–37). His economic reasoning, she explains, "made sense within the intricate reasoning of *desarrollista* [developmentalist] thought but appeared contradictory to those not immersed in this thought"—which, when you are sufficiently outnumbered, describes the condition of autism (p. 120). These particular politicians and the

[74] The Chinese went to the extreme of dispatching their unwanted "epistemic community" of market economists to a most severe reeducation, because they had failed to provide for party power-retention needs.

[75] G. John Ikenberry, "A World Restored: Expert Consensus and the Anglo-American Postwar Settlement," in Haas, *IO*, 294.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

developmental experts they consulted were "dismally unaware" of the symbolic dimension of politics or "how it would play in Peoria"—a grave oversight.

Nations and Notions

Sikkink, a Latin Americanist, comfortably applies that field's view of economic ideas as "projects" and so usually manages to keep the focus on "clusters of ideas/interests," rather than on ideas alone (p. 223). She examines forms of "developmentalism" in Brazil and Argentina, where state actors try to strike "a compromise between demands of the international economy and the demands of domestic groups," and she attempts to explain why economic performance was better, and policy more successful, in Brazil. She also heeds Hirschman, who stresses the need to prepare the population for a new economic idea, a task that requires incorporating these "diffuse publics" into analyses.[76] She therefore does not limit her focus to relations among policymakers, bureaucrats, or epistemic communities but also considers relations between them and the wider society as they strive to strike a "balance between the demands for reform and accumulation."

Sikkink plumbs a vital Gramscian level: "For common sense [defines] the terms of public political discourse; it is embodied in social practices and therefore must be considered a material force"; and "civil society is the sphere in which the struggle to define the categories of common sense takes place."[77] The advantage of Gramsci's approach is that it emphasizes "an awareness of the material nature of ideology and of the fact that it constitutes a practice inscribed in apparatuses" (institutions).[78] Sikkink notes that "shared ideas are the products of agreements that originate in past material distributions of goods." The assumption is that an experienced public is not at the mercy of experts and self-interested parties, because it has a reasonable memory and grounds by which to judge political proposals.

In the cases of Argentina and Brazil, citizens "were wooed with images of industrialization, technification, and the future greatness of their country" by their respective leaders, who needed "capable institutions and broad political support" to carry through their developmentalist projects (pp. 70, 18). An "important means for mobilizing sup-

[76] See Hirschman (fn. 31).

[77] Antonio Gramsci, *The Modern Prince* (New York: International Publishers, 1971), 112.

[78] Chantal Mouffe, "Hegemony and Ideology in Gramsci," in Tony Bennett et al., eds., *Culture, Ideology and Social Process* (London: Open University, 1987), 223.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

port is an appeal to commonly held ideas" via "a project that captivates and inspires people." However, this would not be easy to achieve, inasmuch as developmentalism was "indifferent" to matters of distribution and equity.[79]

Argentine president Frondizi entered office with frail legitimacy in the first place, because Peronistas had been excluded from the election, and he proceeded to reverse himself on foreign investment and petroleum development, repress trade unions, and fail to integrate industrialists into pro-business schemes. Soon enough citizens of all classes would have no need of a semiotician to tell them that Frondizi was volatile and unreliable. In Sikkink's symbolic action-oriented account Frondizi loses an "interpretive struggle." She treats concrete (and correctly interpreted) actions as "signals," as mere "perceived" events that fan a "chronic distrust" of government (p. 222). Thus, the analysis inexorably takes on the cast of a misperception argument, as though citizens can possibly "misperceive" whether or not they are employed or sheltered or free to speak and organize.

In "a multilayered game of symbolic action," an IMF stabilization scheme may be a "symbol" to international investors, but it imposes real deprivation on most domestic wage earners. The analysis proceeds as if only the relation between ideas and discourse mattered, and not the link of economic ideas to credible projects with material effects, that is, to actual experience. Treating Frondizi's lies and contradictory acts primarily as "discursive incongruences" leads too easily to trivializing political activity.

Although Brazilian developmentalists made "a social compact" with subordinate labor, their success also depended on "a convergence of interest between Kubitschek, state *technicos*, and industrial interests" (pp. 146, 154). Sikkink notes that the economic ideas of CEPAL (Comision Economico Para America Latina, or in English the Economic Commission on Latin America [ECLA]), an epistemic community or reasonable facsimile of one, dovetailed nicely "with existing ideas of the entrepreneurs, while providing theoretical justifications for policies that industrialists already had been advocating" (p. 157). Sikkink acknowledges Brazil's greater access to loans and credits, but curiously credits its policy success to "a stronger institutional framework" and identifies an "insulated portion" of the Brazilian bureaucracy as the

[79] Cosmopolitan and nationalist developmentalists "agree about vertical industrialization programs promoted by vigorous state action but disagree over the role of foreign investment and the degree of state involvement in the economy." Sikkink, *Ideas and Institutions*, 39.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

vital ingredient.[80] Her verdict is contradicted by the essential role also ascribed to "bureaucratic rings," which integrated the preferences of private industrialists in a highly favorable way into public sector schemes.[81] Indeed, Sikkink points out that there were "more clientelistic politics and more successful mobilization of technical resources" in Brazil (p. 172). Hence, insulation is not obviously the answer, and anyway, genuine insulation would militate against the responsiveness to popular pressures that she cogently argues is also vital. Her study suffers from an unresolved tension between the attractions of an insulated technocratic mode of governance and her concern that the popular voice be included in policy.

Environmental changes are "stimuli for institutional development," Sikkink correctly notes, with the "forms these institutional innovations take . . . contingent on the specific responses of government officials" (p. 173 fn. 7). But actors and coalitions also devise their "interpretations" of changing economic circumstances, and promote corresponding programmatic messages to the wider citizenry (or potential allies) in order to reinforce their dominance or to displace that of others. Sometimes the message works, sometimes not. For example, the claim that there is no health crisis in America could work only if it is not dismissed outright by voters.[82] If the circumstances change dramatically, the notion of what is pragmatic widens and may even be up for grabs.[83]

A good strategy "presuppose a knowledge of how the public, or how specific political and economic groups will respond to policies," but these responses are not fixed. People "can under circumstances reconfigure what is happening to attain their own advantage or meet their needs."[84] It is less important in Sikkink's study that "different rationalities" were at war between proponents of different economic ideas than whether and how proponents communicated with and promoted popular needs. Neglecting this dimension is hazardous. In Argentina the

[80] On the implications of debt for Brazilian democracy, see John R. Freeman, *The Politics of Indebted Growth* (Denver, Colo.: Graduate School of International Studies, 1983), 20, 65.

[81] Ibid., 157. Sikkink notes that these "rings" aided the 1964 coup (p. 151).

[82] See Geertz's discussion (fn. 39) of why the claim that the Taft-Hartley Act was "a slave labor law" misfired (pp. 208–10).

[83] See J. K. Jacobsen, "Peripheral Postindustrialism: Ideology, High Technology and Development," in James A. Caporaso, ed., *A Changing International Division of Labor* (Boulder, Colo.: Lynn Rienner, 1987); and idem, "Microchips and Public Policy: The Political Economy of High Technology," *British Journal of Political Science* 22 (October 1992).

[84] See Alaine Touraine, *The Return of the Actor* (Minneapolis: University of Minnesota Press, 1988), 1–14.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

reprisal came in a roundabout way, with worker unrest creating the pretext for a military coup in 1962; in Brazil, which was only *relatively* more successful, it came a little later.

Ideas certainly are "interpreted within the context into which they are inserted," and "by the way they are inserted" (Sikkink, 252). It is important to note, however, that context is not an inert background, even though dominant groups tend to portray a context favorable to them as immutable. "None of the supposedly nonpolitical sources of authority—not religious dispensation, not the social order, not the market or technology—can be established as legitimate without a prior political operation," Maier observes. "Its advocates must control the resources of politics, including influence over the media and the capacity to shape political discourse. Once stability had been achieved, the political pressures may disappear from discussion. Indeed, the objective for any strategy for stability must be to make people forget politics."[85] Nonetheless, contextual arrangements are not immune to challenge. The point is that elites and nonelites constantly "work" their environments; that is, they strive to manipulate the material and ideational elements available in their organizational and cultural contexts to protect or further their concerns, and they are usually only too well aware that their opponents do, too.[86]

Gramsci's writings on hegemonic ideology suggest a means for investigating the relations between cognitive and socioeconomic processes that manages to retain elements of both while avoiding the excesses of either.[87] The concept of "cluster of ideas/interests" is a promising though wobbly equivalent, as we have seen. What is needed is at least an application of Gramsci's work in non-Marxian realms where there is not yet a satisfactory equivalent; particularly worthy of attention is the Gramscian concept of "articulation," which provides the tools for a theory of contexts, for contexts are usually treated as given.[88]

Articulation "is a continuous struggle to reposition practices within a shifting field of forces, to redefine possibilities by redefining the field

[85] Maier (fn. 35), 268.

[86] Margaret Archer reminds us of "the quintessential reflective ability of human beings to fight back against their conditioning [which] gives them the capacity to respond with originality to the present context—either by taking advantage of inconsistencies within it and generating new forms of syncretism, or by exploring novel combinations of compatible elements." Archer, *Culture and Agency: The Place of Culture in Social Theory* (Cambridge: Cambridge University Press, 1988), xxiv.

[87] Stuart Hall, "Cultural Studies: Two Paradigms," in Bennett (fn. 78), 12.

[88] Lawrence Grossberg, *We Gotta Get Out of This Place: Popular Conservativism and Modern Culture* (London: Routledge, 1992), 54.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

of relations—the context—within which the practice is located," Grossberg writes.[89] The practice of articulation "reworks the context into which practices are inserted."[90] This approach is sensitive to the material substratum of ideology, the ongoing contest over the content of the political context, and the "social construction of reality," yet it does not capitulate to relativism or a fetishism of ideas and it acknowledges the capacity of nonelites to resist, alter, or adapt dominant ideas. (Hirschmann, as mentioned, is a stellar example of such a non-Marxian position.) This type of approach would be better equipped to plumb the problems regarding the variability of interest formation and the degree of public influence over the parameters of economic policy.

Conclusions

The revival of "ideas" approaches stems from a concern with the lack of specificity both in rational choice explanations and in framing choices according to ostensible material interests. This article conditionally endorses the claim that "beliefs about the casual connections between interests and policies are at least as important as the nature of the interests themselves." But the pervasive flaw in "power of ideas" arguments is their failing to abide by the recognition that ideas and interests are "not separate entities, only analytically separable ones," especially in the economic arena.[91] Economic ideas matter because they are "clusters of ideas/interests" that define productive arrangements. Gramscian analysis handles this conceptualization deftly and can be valuably elaborated and adapted to other paradigms. Sikkink attends to this and so do Garret and Weingast in their argument that belief systems "do not always emerge without conscious efforts on the part of interested actors," that they "must be constructed" (Goldstein and Keohane, 176).

This article criticizes the notion of a passive public. Even if, as posited, many ideas enter the public fray already processed by elites who range from epistemic communities to policy entrepreneurs, nonelites are not so haplessly manipulated with respect to economic ideas. They can help shape the preferences of other actors regarding the framing of a situation and, consequently, the "correct" policy solu-

[89] Ibid. See Terry Eagleton, *Ideology: An Introduction* (London: Verso, 1991), 115, 193–220.

[90] On cultural studies, see Grossberg (fn. 88); Bennett (fn. 78); Dick Hebidge, *Subculture: The Meaning of Style* (London: Metheun, 1979); John Fiske, *Reading the Popular* (Boston: Unwin, Hyman, 1986); and Patrick Brantlinger, ed., *Crusoe's Footprints: Cultural Studies in Britain and America* (London: Routledge, 1990).

[91] Archer (fn. 86), xiii. See Touraine (fn. 84).

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

tion.[92] Economic ideas are programs for action that must appeal not only to crucial interest groups but also to deeply felt if incompletely articulated social needs.

These ideas approaches, for all their problems, are an important way of connecting elites, institutions, and the public realm. They alert us to the subtle political dynamics at play when elites seek to devise solutions to reach common ends that cannot be attained by fiat. All of these writers want to know how cognitive factors influence elite behavior. However, it is time to abandon the conceit that a tree has not really fallen in the forest unless a member of the Council on Foreign Relations hears it or it falls on her. Sikkink and Ikenberry, among others in the IR field, lead the way in offering a belated acknowledgment of the importance of legitimacy, that is, of the need for elites to attend to the diffuse but definite bedrock interests of mass publics in thrashing out policy.

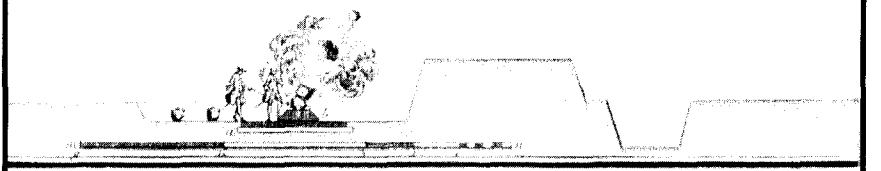
Finally, these studies imply a need for an expanded notion of rationality—more "substantive" than instrumental—regarding models of behavior. As a recent inventory of IR suggests, "For progress to be achieved under conditions of complex interdependence, state elites must recognize that, at a minimum, national interests cannot be achieved at the expense of others, and at a maximum, their own interest depends on the realization of others' interests." This may, in fact, be more of a revelation for IR analysts than for many state actors. The versions reviewed here promote ideas approaches as supplements to interest-based paradigms so as to illuminate how structural and cognitive factors interact.[93] Yet this is too modest an ambition. It remains to be seen whether cumulative additions culminate in a paradigm shift or at least in a reshuffling of the stature of paradigms within IR. But it certainly seems highly desirable.

[92] For historical illustrations, see Ricardo D. Salvatore, "Market-Oriented Reforms and Popular Protest: Latin America from Charles III to the IMF," *Social Science History* 17 (Winter 1993).

[93] Emanuel Adler, Beverly Crawford, and Jack Donnelly, "Defining and Conceptualizing Progress in International Relations," in Adler and Crawford (fn. 8), 27.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

WAR AND PEACE



WORLD POLITICS AND THE EVOLUTION OF WAR

John J. Weltman

From the prominence of war in history to its likely fate in the post-Cold War world, John Weltman explores the many roles of war in world politics.

$14.95 paperback

INTERNATIONAL PEACEKEEPING

Paul F. Diehl

"Consideration of [Diehl's analysis] might have saved policymakers considerable grief in the past year."—*Foreign Affairs*

Perspectives on Security
Richard Ned Lebow, Series Editor

$14.95 paperback

CONGRESS AND THE POLITICS OF U.S. FOREIGN POLICY

James M. Lindsay

By explaining the complex and varied ways that members of Congress make their mark in foreign affairs, Lindsay offers a broader understanding of how the United States will develop a new foreign policy for the post-Cold War world.

$13.95 paperback

FOREIGN POLICY MAKING AND THE AMERICAN POLITICAL SYSTEM

third edition

James A. Nathan and James K. Oliver

"A superior eclectic blend of several theories of American behavior in an effort to 'understand the American image of international reality' since 1945." —*Foreign Affairs*, reviewing a previous edition

$14.95 paperback

THE DEFENSE POLICIES OF NATIONS

A Comparative Study

third edition

edited by Douglas J. Murray and Paul R. Viotti

Now in its third edition, this renowned comparative study of the security structures and defense policies of key nations in the international arena has been thoroughly updated to take into account the developments of recent years.

$25.95 paperback

THE JOHNS HOPKINS UNIVERSITY PRESS

Hampden Station, Baltimore, Maryland 21211
To order, call 1-800-537-5487.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Can you afford *not* to subscribe to

The Australian Journal of Chinese Affairs

澳中

The single best scholarly journal on contemporary China. If one has to limit oneself to one journal on China it should be the *AJCA*.
Edward Friedman
Director, East Asian Studies Center
University of Wisconsin

Has recently become the hottest, most-cited journal on contemporary Chinese affairs. Wide-ranging and timely.
Thomas Gold
Chair, Center for Chinese Studies
University of California Berkeley

The liveliest periodical in the field of contemporary Chinese studies. Feisty, enterprising, informed, and current.
Andrew J. Nathan
Director, East Asian Institute
Columbia University

The *AJCA* is fast becoming *the* leading journal of contemporary Chinese studies. This is one of the few journals I read cover to cover.
James L. Watson
Director, Fairbank Center for East Asian Research, Harvard

Special Offer to New Subscribers

One and a Half Years for the price of a one year subscription

Subscription Rates (2 issues per annum – *plus* a free copy of issue 32 for new subscribers):
Within Australia: $25 per year, students $20, institutions $30.
Outside Australia: US$25 per year, students US$20, institutions US$30; or the equivalent in other currencies.
New three-year subscriptions: $60/US$60, institutions $75 – plus complimentary copies of issues 31 and 32.
Back issues Nos 7, 10, 12 to 15, 17, 22, and 24 to 31 can be purchased at $15/US$15 each.

☐ **1 Year** ☐ **3 Years**

☐ Enclosed is my check (payable to ***Australian Journal of Chinese Affairs***)
☐ Please charge to my ☐ **Bankcard** ☐ **Mastercard** ☐ **Visa**

Card No. _____ Exp. Date _____ Signature _____

Name _____ Title _____

Address _____

_____

_____

Payments should be sent to: Contemporary China Centre,
RSPAS, Australian National University, Canberra, ACT 0200.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Barbara Farnham, Editor

Avoiding Losses / Taking Risks

Prospect Theory and International Conflict

A comprehensive examination of the benefits and potential pitfalls of employing prospect theory to explain political behavior.

paper $18.95

Fred Chernoff

After Bipolarity

The Vanishing Threat, Theories of Cooperation, and the Future of the Atlantic Alliance

Offers a new perspective on post-Cold War security issues.

paper $44.50

Ted Hopf

Peripheral Visions

Deterrence Theory and American Foreign Policy in the Third World, 1965–1990

In analyzing cold war Soviet defeats and victories in the Third World, Hopf challenges the traditional assumptions of deterrence theory.

cloth $49.50

Michael D. Kennedy, Editor

Envisioning Eastern Europe

Postcommunist Cultural Studies

An interdisciplinary analysis of transition that draws on political theory, history, literary studies, psychoanalysis, and sociology.

cloth $37.50

Carol J. Hager

Technological Democracy

Bureaucracy and Citizenry in the German Energy Debate

An examination of the role of the citizen in a society in which specialized knowledge confers power.

cloth $39.50

Roy Pierce

Choosing the Chief

Presidential Elections in France and the United States

Presents a clear and complete picture of how constitutional frameworks, electoral laws, party systems, social structures, and pivotal historical developments have converged to produce distinctive patterns of presidential politics in two countries.

cloth $39.50 / January

Benjamin Miller

When Opponents Cooperate

Great Power Conflict and Collaboration in World Politics

A multi-level theory of international relations that accounts for intended and unintended outcomes.

cloth $44.50

John P. Powelson

Centuries of Economic Endeavor

Parallel Paths in Japan and Europe, and Their Contrast with the Third World

Building from an intriguing and neglected parallel between the histories of Japan and Northwest Europe, Powelson explores the paths of social and political development to isolate the link between economic development and the diffuse distribution of political power.

cloth $45.00

The University of Michigan Press
Dept. TD
Ann Arbor, Michigan 48106-1104

Credit card buyers may fax orders to (800) 876-1922

MICHIGAN

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

Princeton University

Center of International Studies

Research Program in International Security

Opportunities for Visiting Fellows

The Research Program in International Security (RPIS) at Princeton University's Center of International Studies will award visiting pre- and post-doctoral fellowships for the academic year 1995-96.

RPIS was established to promote the study of the causes, character, consequences, and control of military rivalry and violent conflict, both within states and between them. The Program welcomes applications from scholars whose work addresses these issues, regardless of discipline or methodology. Visiting fellows will be in residence at Princeton during the 1995-96 academic year. Pre-doctoral fellows will receive a stipend of approximately $16,500 and will be expected to complete work on their doctoral dissertations. Post-doctoral fellows (who must have their Ph.D. in hand by August 1995) will be expected to make substantial progress toward completion of a book-length manuscript and will receive a stipend of approximately $33,000.

Applications should include the following:

1. A current curriculum vitae
2. A research proposal of no more than 3,000 words
3. Three letters of recommendation (to be sent directly to RPIS)

All materials should be sent **by January 31, 1995** to

Professor Aaron Friedberg
Research Program in International Security
Center of International Studies
321 Bendheim Hall
Princeton University, Princeton, NJ 08544-1022

The Woodrow Wilson School of Public and International Affairs

STATEMENT OF OWNERSHIP,
MANAGEMENT, AND CIRCULATION, 10/1/94

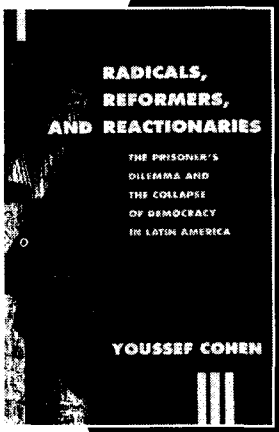
Title: *World Politics*. Pub. No. 0043-8871. Frequency: Quarterly. Four issues published annually. Subscription price: $51.00 institutions, $24.00 individuals. Location of office of publication: The Johns Hopkins University Press, 2715 North Charles Street, Baltimore, MD 21218. Headquarters of publishers: Same. Publisher: The Johns Hopkins University Press, 2715 North Charles Street, Baltimore, MD 21218. Editor: John Waterbury, World Politics, Bendheim Hall, Princeton, NJ 08544. Owner: Princeton University. The purpose, function, and nonprofit status of this organization and the exempt status for Federal income tax purposes have not changed during the preceding 12 months.

Extent and nature of circulation		Av. no. copies each issue preceding 12 mos.	Actual no. copies single issue pub. nearest to filing date
A	Total no. copies printed	4500	4500
B.	Paid circulation, mail subscriptions	3695	3641
C.	Total paid circulation	3695	3641
F.	Free distribution	121	118
G.	Total distribution	3816	3759
H.	Copies not distributed	684	741
I.	Total	4500	4500

I certify that the statements made by me above are correct and complete. Marie R. Hansen, Associate Director.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

RADICALS, REFORMERS, AND REACTIONARIES



THE PRISONER'S DILEMMA AND THE COLLAPSE OF DEMOCRACY IN LATIN AMERICA

YOUSSEF COHEN

In this groundbreaking application of game theory to political phenomena, Cohen argues that structural conditions in Latin American countries did not necessarily preclude the implementation of social and economic reforms within a democratic framework.

Paper $14.95 196 pages Cloth edition $34.95

THE UNIVERSITY OF CHICAGO PRESS

5801 S. Ellis Ave., Chicago, IL 60637

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

• PRINCETON •

". . . ranks with the best books on Japanese policy-making, and certainly the best on tax reform policy."
—Mathew D. McCubbins

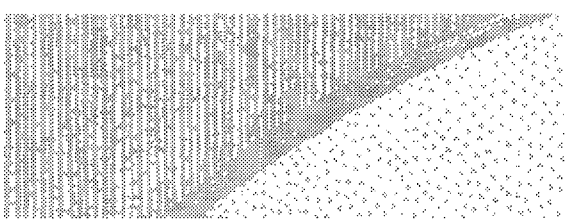
The Problem of Bureaucratic Rationality

Tax Politics in Japan

JUNKO KATO

Through a detailed account of the political battles over Japanese tax reform during the last two decades, Junko Kato draws an unconventional portrait of bureaucratic motivation, showing how fiscal bureaucrats exploit their unique technical knowledge to influence policy-making. Her careful analysis of the Japanese case holds important implications for the study of bureaucratic power and public policy in advanced industrial democracies elsewhere in East Asia and the West.

Cloth: $39.50 ISBN 0-691-03451-6



"Hendrik Spruyt takes on a theme which is major by any standards and of central import to political science."
—John A. Hall

The Sovereign State and Its Competitors

HENDRIK SPRUYT

The present international system, composed for the most part of sovereign, territorial states, is often viewed as the inevitable outcome of historical development. Hendrik Spruyt argues that there was nothing inevitable about the rise of the state system, however. Examining the competing institutions that arose during the decline of feudalism, Spruyt disposes of the familiar claim that the superior size and war-making ability of the sovereign nation-state made it the natural successor to the feudal system.

"[Spruyt] is on top of current literature about evolution and social change, as well as more abstract work within the philosophy of social science. All is used to substantive effect in his convincing demonstration. . . ."—John A. Hall

Princeton Studies in International History and Politics: John Lewis Gaddis, Jack L. Snyder, and Richard H. Ullman, Editors

Cloth: $39.50 ISBN 0-691-03356-0

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"... an excellent comparative political study and the best book on post-communist Russian politics that I have read."
—Michael Urban

Democracy from Scratch

Opposition and Regime in the New Russian Revolution

M. STEVEN FISH

This book presents a fresh view of Russian political change in the Gorbachev and early post-Soviet periods by investigating the autonomous political organizations that responded to liberalization. Extensive study of these political groups has led M. Steven Fish to conclude that they were shaped to a far greater degree by the nature of the Soviet state than by socioeconomic modernization, political culture, native psychology, or Russian historical tradition.

Fish proposes a novel and theoretically sophisticated way to study Russian politics and offers a rigorous approach to understanding social movements, political party formation, regime change, and democratization in general.

"... will doubtless become a standard in the field and will probably exert a considerable influence in shaping the field itself."—Michael Urban

Cloth: $39.50 ISBN 0-691-03703-5

"...a timely and significant contribution to the study of ethnic and racial relations. . . ."
—Donald Rothchild

Democratization in South Africa

The Elusive Social Contract

TIMOTHY D. SISK

Timothy Sisk presents a new way of conceiving the transition to democracy in South Africa. Unlike authors who have sought to prescribe an ideal set of post-apartheid political institutions, Sisk asks what kinds of institutions show signs of actually emerging, given recent history and present realities. Drawing on extensive interviews with political figures, as well as other primary and secondary sources, Sisk finds reason for hope that a democratic social contract can evolve.

"Sisk combines theoretical sophistication with compelling supportive empirical data. . . . Must reading for anyone concerned with constitutional engineering or interracial and interethnic relations."—Donald Rothchild

Cloth: $39.50 ISBN 0-691-03622-5 *Due December 1994*

PRINCETON UNIVERSITY PRESS
AVAILABLE AT FINE BOOKSTORES
OR DIRECTLY FROM THE PUBLISHER: 609-883-1759

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

CORNELL STUDIES IN POLITICAL ECONOMY
a series edited by Peter J. Katzenstein

"Rich Nation, Strong Army"

National Security and the Technological Transformation of Japan

RICHARD J. SAMUELS

"A very significant book that will undoubtedly be read and debated in Tokyo as well as Washington. Debates about Japanese technology policy will not be able to proceed without it. It will be an important reference for our commercial as well as security discussions with Japan." —John Zysman, Berkeley Roundtable on the International Economy. $35.00

The Limits of Social Democracy

Investment Politics in Sweden

JONAS PONTUSSON

New in Paper! "The book has enormous value simply for having furnished the factual record, hitherto largely inaccessible except to Swedish readers. . . . An important study."—*American Political Science Review.* "An important book that should be read by all students of social democracy."—*Journal of Politics.* $31.50 cloth, $15.95 paper

Winners and Losers

How Sectors Shape the Developmental Prospects of States

D. MICHAEL SHAFER

"This is a major contribution to the literature on the political economy of development. Shafer presents a powerful perspective on the determinants of different patterns of economic development, and his will be an important voice."—Jeffry Frieden, University of California, Los Angeles $37.50 cloth, $14.95 paper

The Cooperative Edge

The Internal Politics of International Cartels

DEBORA L. SPAR

"Spar sheds new light on international cooperation by examining the inner workings of both state and private cartel efforts in diamonds, uranium, gold and silver. The book's contribution to our understanding of cooperation and cartels is not only academic; Spar's primer on cartels is spiced with lively, compelling stories of collusion."—Stephan Haggard, University of California, San Diego. $29.95

International Governance

Protecting the Environment in a Stateless Society

ORAN R. YOUNG

How can the global environment be safeguarded in the absence of a world government? In the vanguard of efforts to address this critical question, Young draws on environmental issues to explore the nature of international governance. $32.50 cloth, $13.95 paper

ALSO OF INTEREST

Vietnam

The Politics of Bureaucratic Socialism

GARETH PORTER

"A brilliant introduction to modern Vietnamese politics for any informed reader, the book is also an invaluable reference for the specialist."—William S. Turley, Southern Illinois University at Carbondale. "Porter's work is an essential introduction to the recent history and political organization of Vietnam."—*Choice.* POLITICS AND INTERNATIONAL RELATIONS OF SOUTHEAST ASIA. $29.95

At bookstores, or call (607) 277–2211

Cornell
UNIVERSITY PRESS
Sage House • 512 East State Street • Ithaca NY 14850

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

"A significant event in the scholarship on revolutions."
—Robert C. Tucker

"It is easily the best book of its type ever written for a political science audience."
—Howard Rosenthal

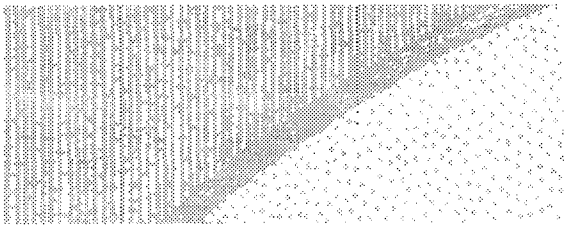
The Vogue of Revolution in Poor Countries

FORREST D. COLBURN

In the aftermath of World War II, a surprisingly large number of poor countries were up-set by revolution: Vietnam, China, Cuba, Algeria, Ethiopia, Cambodia, Mozambique, Angola, Afghanistan, Iran, and Nicaragua. Revolutionaries in these geographically and culturally disparate countries came to power through different routes, but once in power they had remarkably similar ideas about how to remake their states and societies. In a detailed analysis of the course of these revolutions, this lucid book clarifies why so many countries were so profoundly wrecked in the frenzied pursuit of a dreamt-up world.

"This book is without question the most important analysis of (the failures of) socialist construction ever written. . . . The political implications of [Colburn's] argument are applicable to an audience far beyond that of the specialist."—Timothy Wickham-Crowley

Cloth: $19.95 ISBN 0-691-03676-4



Game Theory for Political Scientists

JAMES D. MORROW

Game theory is the mathematical analysis of strategic interaction. In the fifty years since the appearance of von Neumann and Morgenstern's classic *Theory of Games and Economic Behavior* game theory has been widely applied to problems in economics. Until recently, however, its usefulness in political science has been underappreciated, in part because of the technical difficulty of the methods developed by economists. James Morrow's book is the first to provide a standard text adapting contemporary game theory to political analysis. It uses a minimum of mathematics to teach the essentials of game theory and contains problems and their solutions suitable for advanced undergraduate and graduate students in all branches of political science.

Cloth: $35.00 ISBN 0-691-03430-3

PRINCETON UNIVERSITY PRESS

AVAILABLE AT FINE BOOKSTORES OR DIRECTLY FROM THE PUBLISHER: 609-883-1759

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED